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Promotion of cooperatives

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INTRODUCTION

Decision to revise the Cooperatives (Developing Countries) Recommendation, 1966 (No. 127)

In March 1999, at its 274th Session, the Governing Body decided to include in the agenda of the 89th Session (2001) of the International Labour Conference the question of the promotion of cooperatives, with a view to adopting a revised standard in the year 2002.

The last comprehensive discussion on cooperatives in the ILO took place in 1966 at the 50th Session of the International Labour Conference, when it adopted the Cooperatives (Developing Countries) Recommendation, 1966 (No. 127). The ILO held a Meeting of Experts on Cooperatives in 1993 whose agenda included an item concerning an assessment of the impact of Recommendation No. 127. This meeting was followed by the Meeting of Experts on Cooperative Law in 1995, at which this was further discussed.

A number of international labour standards make direct or indirect reference to cooperatives, but the only comprehensive international standard on cooperatives is Recommendation No. 127. Also of relevance are the Rural Workers' Organisations Convention, 1975 (No. 141), and Recommendation (No. 149), the Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169), and the Indigenous and Tribal Peoples Convention, 1989 (No. 169). These standards give examples of how specific groups may organize, including in the form of a cooperative, and to what ends cooperatives may be used by their members, or they emphasize that groups living according to cultural traits which are not the ones of the majority of society should be protected in their way of organizing self-help associations, including cooperatives.

Reasons for the revision

Since the time of the adoption of Recommendation No. 127, political, economic and social changes have affected the situation of cooperatives throughout the world. While cooperatives have a new role to play both in industrialized countries and in the former communist countries, the focus of Recommendation No. 127 is limited to developing countries. The Governing Body felt that new universal standards in this area could help enable cooperatives to develop more fully their self-help potential, placing them in a better position to meet a number of current socio-economic problems, such as unemployment and social exclusion.

As far as developing countries are concerned, Recommendation No. 127 mirrored the development concerns of the 1960s, especially in the approach to the role of governments and cooperatives in the development process. Today, development is not conceived as a process of imitation of industrialized countries, nor are cooperatives seen as tools in the hands of governments. In accordance with universally recognized cooperative principles, they are perceived as a means for their members to achieve their common economic and social goals.

In former communist countries cooperatives were an integral part of the political system, a means of centralizing land use, employing agricultural labour and distributing consumer goods. The current privatization of the former communist economies reaches beyond the land reform referred to in Recommendation No. 127; it involves the privatization of manufacturing facilities and service infrastructures. Some communist-type cooperatives have been transformed into genuine cooperatives, while others have been bought out by individuals or by former members jointly. Since cooperatives have assumed an increasingly important role as a result of liberalization and the privatization of trade and services, the ILO is receiving an increasing number of requests from both developing and transition countries for technical assistance in cooperative organization, training and policy and legislative reform.

In industrialized countries it is the changing structure of cooperative enterprises and new forms of cooperatives that have contributed to the call for the application of new standards. The traditional structure of cooperatives in many of these countries is currently evolving to cope more effectively with competitive pressure from other forms of business organizations. On the other hand, the cooperative model of joint ownership and management is increasingly being used by employees to buy out their own enterprises in the transport, service and manufacturing sectors, as a means of protecting and generating jobs in an era of continued downsizing resulting from globalization and technological change.

In many countries, political, economic and social changes in general have put pressure on governments to limit their involvement in economic and social affairs. The core idea of structural adjustment programmes is a shift from public to private initiative, financing, management and responsibility. Subsequent monetary and fiscal stabilization programmes, institution building, privatization and liberalization require civil society to take a more active role in economic, social and political affairs. The State's role is increasingly limited to that of providing the political, legal and administrative framework for the development of private organizations, including cooperatives, which in turn strengthen democracy. The existing ILO standard does not take account of these developments.

In 1995 the Centennial Congress of the International Cooperative Alliance, the highest organization of the international cooperative movement, adopted a Statement on the Cooperative Identity including a revised set of principles. These principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community. The new principles, while building on and refining the previously accepted principles, firmly positioned cooperatives as jointly owned, democratically controlled enterprises based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. The existing ILO standard, while sharing the same fundamental philosophical tenets, overemphasizes the role of government in cooperative development and weakens the autonomous character of cooperative identity and entrepreneurship. Furthermore, Recommendation No. 127 underemphasizes the business orientation of cooperative enterprises.

ILO's role in cooperative development

The ILO recognizes the importance of cooperatives in article 12 of its Constitution, which provides for consultation with cooperators — besides employers and

workers — through their recognized international organizations. At the Third Session of the Governing Body in March 1920 a cooperative technical service was set up as part of the organization of the ILO. Thus the cooperative service is one of the oldest and most firmly established in the ILO. In accordance with these provisions the ILO has promoted the development of cooperatives, mainly through technical assistance and information, and has advised governments, and workers' and employers' organizations, on their role in this area. Today, the ILO has the largest programme of technical cooperation within the United Nations system for this purpose.

The report

This report is divided into three chapters and includes a questionnaire.

Chapter I analyses the changing environment of cooperatives in developing, transition and industrialized countries and identifies the main changes that have taken place in the demographic, economic, social, political, ecological and technological fields and their impact on cooperative enterprises. This chapter also discusses the potential of cooperatives in relation to the economic and social services they provide. The broader role of cooperatives in the areas of decentralization, democratization and the economic and social empowerment of women are also described.

Chapter II focuses on the prerequisites for success in the promotion of cooperatives based on positive and negative experiences since Recommendation No. 127 was adopted. Special emphasis is given to the changing role of government, cooperative policy and legislation, cooperative support services such as human resource development, management consultancy and auditing, the role of the social partners, horizontal and vertical integration between cooperatives and, not least, the role of international cooperation.

Chapter III contains some concluding remarks.

CHAPTER I

COOPERATIVES TOWARDS THE TWENTY-FIRST CENTURY

1. The changing environment in which cooperatives operate

1.1. Developments over the past 30 years which may warrant reconsidering the contents and structure of Recommendation No. 127

Changes of environment in which cooperatives operate

The political and economic order which prevailed when Recommendation No. 127 was written was relatively straightforward, with donors of development aid concentrated in the rich, industrialized countries and recipients of development aid in the South — alongside the power relationship between the communist countries of Eastern Europe and the Western industrialized countries; however, this has given way to a complex network of regional blocs at various stages of political and social development. As we enter the twenty-first century, we are confronted with dramatic changes which are reshaping the development environment and must find a response to many issues: the longer term implications of the East Asia crisis; the experience of sub-Saharan Africa and the transition economies with structural reform; the fragmentation of authority in many nation States; global and regional environmental pressures; the growing scarcity of basic resources; and a massive increase in the world's population.

The most important changes that have occurred — and are still occurring — on a world scale are of a political, demographic, social, economic, ecological and technological nature; this report briefly touches upon these changes to highlight their impact on cooperative development.

Political change

The most prominent and far-reaching change in the political arena has been the decay of dogmatic socialism as a form of government, accompanied by the restructuring, privatization or winding up of large numbers of public institutions, state enterprises and collectives in many countries, which have brought about widespread upheavals and poverty. Structural adjustment programmes in many developing and some industrialized countries have also caused hardship, especially to the lower income strata of the population. These programmes advocate liberalization in economic affairs, thus providing a golden opportunity for the rich and educated — and sometimes also unscrupulous and powerful — to profit at the expense of the weaker sections of society: a classic scenario for the development of cooperatives.

During the past two decades, political liberalization has affected cooperatives and their apex organizations in several ways: first, the era of compulsory membership in cooperatives and apex cooperatives has come to an end. This has resulted in a consid-

erable decline in membership — and an ensuing loss of membership contributions. Second, cooperative service monopolies have collapsed due to cuts in government subsidies. This loss of confidence that was built upon the continued support of the State has affected the level and quality of production, resulting in many cooperative members being underemployed or unemployed. Due to new and more liberal cooperative policies, newly emerging democratic cooperatives have started to take part in building a more pluralistic society.

After unsuccessful and costly experiments with collectives and land reform cooperatives (e.g. *ujamaa* in the United Republic of Tanzania, *fokonolona* in Madagascar, peasant associations in Ethiopia, *samahang nayons* in the Philippines and collectives in the former communist countries in Eastern and Central Europe and in the former Soviet Union), the usefulness and practicability of collectives and the role of cooperatives in land reform programmes are now being reconsidered.

Artificially created, state-controlled cooperatives, which depend on government subsidies and foreign aid may lack the vitality and flexibility needed to adjust to new circumstances and tend to collapse or be discontinued when external assistance dries up. However, cooperatives established without government support may actually benefit from the withdrawal of public agencies from certain functions by, for example, taking over the functions of defunct marketing boards.

There have also been very significant changes in the perception of the role of the State in many industrialized countries. In most of these countries the State has withdrawn from direct involvement in industry or trade and rather provides the framework within which economic activity can grow and prosper so as to bring wealth and prosperity to citizens. Cooperatives are increasingly expected to take their place alongside other forms of enterprise in a competitive market-place.

Demographic change

The world is witnessing two vastly different demographic trends. In the industrialized countries, birth rates are falling and life expectancy is steadily increasing. Consequently, in the future, a declining number of active citizens will have to provide social security for a growing number of senior citizens who may continue to live for 20-30 years after retirement. In Germany, within the next 30 years, taxpayers and those paying insurance contributions will be largely outnumbered by senior citizens claiming social security payments. In the developing countries the reverse trend holds true. In Africa and many countries of Asia (with the exception of China) and Latin America, the birth rate is still at high levels, with the majority of the population being below the age of 20. Over the next 30 to 50 years, 90 per cent of the global population growth will occur in the developing countries and among the lower income groups. Furthermore, medical progress will help to reduce mortality rates and extend life expectancy.

It is estimated that, over the next 50 years, the world population will increase by 93 to 95 million per year, reaching 10 billion in the year 2050 (as opposed to 5.5 billion in 1992). A growing population will mean growing pressure on the ecological system, thus increasing the need for food, shelter and jobs. It will also create further problems: land scarcity; conflicts over the use of land; and soaring levels of urbanization, with rapidly growing slums and squatter settlements around cities such as Lagos, Nairobi, Lusaka, Manila, Bangkok and Rio de Janeiro.

In industrialized countries, these demographic changes prompt cooperatives to diversify their services and certain groups to establish specialized cooperatives. From the 1980s onwards, new types of cooperatives started to emerge to take care of elderly people and to provide basic services, such as health care, housing, funeral and other social support services. Alongside this trend, vulnerable groups, such as unemployed youth, started to take an interest in establishing or joining workers' cooperatives or community-based service cooperatives. In many European countries, the 1970s and 1980s were therefore considered to be the decades which witnessed the rebirth of workers' cooperatives. In the developing countries, in order to stop mass migration to urban areas, rural cooperatives have started to take part in local development initiatives aimed at creating employment in rural areas, such as rural infrastructure, reafforestation, land improvement and environmental protection.

Social change

A decay of value systems may be observed throughout the world, which is reinforced by the demographic changes pointed out earlier in the text. Family structures, which for time immemorial have been reliable and effective systems of social security, are disintegrating. In many industrialized countries, large, multi-generation families are the exception rather than the rule. Instead, nuclear families with one or two children are the norm, but these are already being replaced by single households. Under such conditions, the question of caring for the aged has to be thoroughly reconsidered.

The World Summit for Social Development held in 1995 in Copenhagen reported that the global wealth of nations had multiplied sevenfold in the last 50 years; however, at the same time, within many societies, both in developed and developing countries, the gap between the rich and poor had increased. Despite the fact that democratic pluralism, democratic institutions and fundamental civil liberties have expanded, far too many people, particularly women and children, are vulnerable to stress and deprivation. Poverty, unemployment and social disintegration often result in isolation, marginalization and violence.

While these problems affect all countries, there is a general consensus that the situation of most developing countries — particularly of Africa — is critical and requires special attention and action and that these countries, which are undergoing fundamental political, economic and social transition (including countries in the process of consolidating peace and democracy), require the support of the international community.

According to the Programme of Action of the Social Summit, the goals and objectives of social development require continuous efforts to reduce and eliminate major sources of social distress and instability for the family and for society. Particular focus should be placed on, and priority attention given to, the fight against the worldwide conditions that pose severe threats to the health, safety, peace, security and well-being of people. Among these conditions are: chronic hunger; malnutrition; illicit drug problems; organized crime; corruption; foreign occupation; armed conflicts; illicit arms trafficking, terrorism; intolerance and incitement to racial, ethnic, religious and other hatreds; xenophobia; and endemic, communicable and chronic diseases. To this end, coordination and cooperation at a national level and especially at the regional and international levels should be further strengthened.

During the process of structural adjustment it has become obvious that independent, self-reliant service cooperatives and credit unions can make important contributions to human resources development by helping their members enhance their general education and professional skills. They can also help to alleviate the negative effects of adjustment affecting the weaker groups of the population.

Self-help organizations formed spontaneously to solve the immediate problems of their members, including pre-cooperatives and informal groups, are more viable than imported structures which are not fully compatible with local standards of behaviour and do not necessarily serve the economic needs of the target group.

However, despite all the precautions taken, genuine, cost-effective and well-performing cooperative societies can easily be undermined when they are used as institutional structures for the delivery of project-provided goods and services to target groups, as pointed out in a report of the Economic and Social Council of the United Nations (ECOSOC).

Economic change

The most far-reaching economic change during the past few years has been the experience of many former communist States which have undergone a transition from a centrally planned economy to a market economy. In all countries, there is a growing disparity between the rich and the poor. Even in the rich industrialized countries, an uneven distribution of wealth and growing poverty has reached a degree that would have been unimaginable a few decades ago. The number of unemployed and homeless people is growing steadily.

The increase in unemployment and underemployment, coupled with the limited absorption capacity of modern informal sector enterprises, make private initiative, entrepreneurship and self-employment a vital alternative for the creation of jobs.

The trend to have less but better paid jobs and to transfer jobs to countries with lower labour costs, thereby increasing the number of unemployed people living on social benefits, cannot continue much longer without causing serious social unrest. The political and economic actors will therefore have to seek solutions for a more equitable distribution of work and wealth.

In the developing countries, mass poverty, high unemployment, inflation, unfavourable terms of trade for export crops and the burden of foreign debts paint a bleak picture. Structural adjustment programmes sought to accelerate economic growth and increase production and exports at almost any cost; yet their total disregard for social policy was such that new programmes addressing the social dimension of adjustment had to be designed. Reducing investment in areas such as education and health in countries which urgently need improved economic and social conditions is not compatible with the requirements of long-term sustainable development.

The ILO estimates that, out of a world labour force of 3 billion people, 25 to 30 per cent are underemployed and about 140 million workers are fully unemployed. In short, the employment situation in the world remains largely grim and there is a pressing need for all countries to find new ways to overcome barriers to employment.

With these persistently high levels of unemployment and underemployment there is mounting concern over the social exclusion that follows from limited employment opportunities. At special risk of exclusion in the current economic environment are:

unemployed youth, the long-term unemployed, older displaced workers, less skilled workers with disabilities and ethnic minority groups — with women facing even higher barriers to employment across all these categories. Of special social concern is the severity of youth unemployment worldwide; the ILO estimates that there are about 60 million young people between the ages of 15 and 24 who are in search of work but cannot find it.

Rapid technological change now requires individuals to learn and relearn skills throughout their working lives; training systems must adapt accordingly. While there has been a significant shift towards service sector activities in almost all economies, training systems, which have traditionally been geared to meeting the needs of the manufacturing sector, have been slow to adjust, and the introduction of comparable training for service sector activities has also been slow. Another important structural shift has been the increasing role of small and micro-enterprises, including cooperatives, in providing job opportunities and employment growth.

In most industrialized countries cooperatives have developed over the past 100 years into powerful economic structures organized in integrated systems at the local, regional, national and international levels.

In the industrialized countries the importance of cooperatives in the market economy is fully recognized. The State influences the development of cooperatives mainly by providing suitable framework conditions for social, economic and political development, ensuring respect of the law and the availability of a social security network.

Many of the long-established cooperative enterprises (agricultural supply and marketing societies, credit societies, consumer, retail trader and craftsmen cooperatives, cooperatives of the liberal professions and housing cooperatives) have grown into large-scale, professionally run and solidly financed enterprises in full competition with other commercial firms. Many of these large cooperative enterprises work almost like companies, offering their services not only to their members but to the general public, reducing members' rights and obligations to a minimum and the relations of their members with their cooperative to that of mere customers. The long-term result of this trend is that cooperatives lose their membership base and either wind up as, or turn into, investor-owned businesses.

On the other hand, successful large cooperatives have shown that it is possible to maintain a strong membership base and the active participation of members in the management and control of their cooperatives (even with groups of tens of thousands of members), provided that there is a clear-cut policy for maintaining a strong cooperative profile and that adequate measures are taken to implement such a policy.

There are basically two forms of cooperation, although many different types of cooperatives are used to achieve the objectives set by their members: socio-economic cooperation and business cooperation — and both have the potential to serve the cause of sustainable development. The main features of each form of cooperation are resumed here below:

- Socio-economic cooperation occurs between individuals who seek to provide a service for themselves. This form of cooperation normally offers life-quality enhancing benefits that can especially serve the disadvantaged and usually succeeds in promoting social cohesion and strengthening the bargaining power of the relatively economically weaker sections of society. Socio-economic cooperation

is most valuable when focused on addressing some of the most fundamental symptoms of underdevelopment — for example on breaking the stranglehold of anti-developmental forces such as rural élites, moneylenders and middlemen. It is often most effective in terms of delivering essential community and social services no longer provided by the State, including health care, education, agricultural extension services and public utilities. However, it must be borne in mind that in order to work in poorer communities, high levels of solidarity are required and strong local leadership is critical.

- Business cooperation takes place between business persons (entrepreneurs) and small or medium-sized enterprises (SMEs). It is most common between farmers operating above the subsistence level. Business cooperation is used to build the capacity of SMEs (including individually or family-owned farm enterprises), helping them to compete, sustain profitability and maintain their independence. The success of SMEs frequently depends upon their ability to work in cooperation with similar enterprises. In order to survive the intense competitiveness of a global market-place it is essential that SMEs work together through institutions able both to address local and export markets and to provide the strength to meet the challenge of multinational competitors — often even in their home markets. This is particularly important in the sphere of primary agricultural produce and agro-industrial products — but it can also be significant in terms of creating and/or maintaining local employment, which may otherwise not exist. Many factors may impede social and economic development in poor communities. The absence of sustainable institutions with the capacity to provide both primary production inputs at competitive prices, and/or appropriate channels into home and export markets, remains a significant obstacle to wealth and employment creation, most notably in rural areas.

Ecological change

In 1980, a report by the International Cooperative Alliance (ICA) predicting the future of cooperatives referred to environmental degradation as follows:

> Whatever else may be said about the century now approaching an end, it must be recorded as the period in which mankind has done more to poison and destroy the environment than in all previous eras of history. The industrial revolution of modern times, beginning about 200 years ago, started society on the road to destruction and spoilage of the whole human habitat, using the adage "muck makes money". The degradation of the environment has gone hand in hand with wasteful use of resources and disturbance of the delicate balances of nature. (ICA: *Cooperatives in the Year 2000*, London, 1980, p. 23.)

Pollution of water, soil and air has reached dimensions which can no longer be ignored either by the ordinary citizen or by the politicians. Climate change leading to droughts, forest fires and floods are causing increasingly heavy damage and forcing people to reconsider their lifestyle and attitude towards the use of natural resources.

Although in the industrialized countries much attention is being given to the control and prevention of pollution, the disposal and recycling of waste, the use of alternative and renewable sources of energy and the development of appropriate technologies, these issues are still far from being high on the agenda. Measures to make enterprises pay for the environmental damage they cause are still not as effective as they should be.

In the developing countries, desertification due to monoculture, population pressure, overgrazing, use of dangerous chemicals (such as fertilizers and pesticides) and the destruction of forests are the most important ecological dangers causing global climate changes.

The cooperative movement can rise to the challenge of these wide-ranging environmental problems. Probably the most important lesson learned during the 1980s was that it is possible to protect the environment and regenerate its productivity as long as the people concerned are involved and participate.

At a conference organized by the ICA in Rome in 1993, representatives of various types of cooperatives specified the contribution they could personally make towards environmental protection. The agricultural cooperative representatives, for instance, defined their role as one of promoting sustainable rural development and ensuring food security. The consumer cooperative representatives, on the other hand, advocated a policy of "three r's" — reduce, reuse, recycle — in order to achieve sustainable consumption patterns.

Technological change

Rapid globalization and fast-paced technological progress also present new challenges that are common to all countries. Heightened competition and economic change ensuing from global economic integration and technological advance can cause instability and make it difficult to maintain the employability of large segments of a country's labour force. At the same time, these new economic forces provide fresh opportunities for economic growth and employment expansion. The level and quality of skills that a nation possesses are becoming critical factors in terms of the ability to take advantage of these opportunities, while minimizing the social costs which rapid technological transformations and the transition to a more open economy entail.

Technological innovations have made it possible to use energy and raw materials more effectively and to substitute scarce raw materials by new synthetic products. Transport and communication systems have provided the opportunity to transfer jobs to places where labour is cheap and to separate production and assembly plants. Thanks to modern technology, fewer farmers can produce more food than ever before, and are even paid by the State to reduce their production to avoid surpluses. On the other hand, this high productivity is brought about by heavy use of chemicals which in turn contribute to the pollution of water, soil and air.

1.2. Developing countries

1.2.1. The changing role of the State

The developing world experienced several decades of working with state-sponsored and state-controlled cooperatives — which had been introduced by the colonial powers as development tools and subsequently used by the governments of the independent States for similar purposes. Unsuccessful and costly experiments were carried out on the basis of joint agricultural production, collectives and state farms as a way of increasing peasant production and productivity.

Alongside attempts at radical reform — such as the creation of cooperatives for the production of cash crops for export, service cooperatives for food crop production —

handicrafts, small-scale industry, savings and credit and housing cooperatives have developed independently, slowly and sometimes with remarkable success.

Many self-help activities are carried out in informal groups and pre-cooperative organizations, which are sometimes preferred by their members because they are more flexible, less bureaucratic and not subject to official supervision.

In a time of rapid change due to structural adjustment programmes, cooperatives are seen as organizations capable of cushioning the adverse social effects of some adjustment measures.

The major obstacles to the development of cooperatives in developing countries include: misconceptions among policy-makers and planners of what cooperatives are and how they work; unrealistic expectations of what cooperatives can actually accomplish; the establishment of cooperatives irrespective of whether or not the minimum requirements for successful cooperative development are met; and the artificial acceleration of cooperative growth.

In developing countries, the need for clear guidelines on ways to promote, establish and run cooperatives is as great now — or even greater — than it was when Recommendation No. 127 was drafted. In many cases, continuous population growth, the declining manpower/arable land ratio, high investment in the public sector, prestige projects and military hardware, the expansion of state and para-state enterprises and the pursuit of industrial rather than rural development, coupled with policy deficiencies, corrupt practices and low prices for agricultural products, have generated a soaring foreign debt, high unemployment and underemployment, political instability, a stagnating economy and growing mass poverty.

Decades of neglect of rural development have led to massive rural/urban migration, which has compounded the problems of unemployment and underemployment in the exploding cities and siphoned off young, dynamic and active workers from rural areas. In addition, independent democratic organizations, including cooperatives and other self-help forms of organization, have sometimes been regarded by many governments as dangerous or potentially dangerous competitors for power.

In an attempt to halt this downward trend, foreign aid and the cancellation of foreign debts are made subject to structural adjustment conditions which compel the recipient governments to reduce their role in the economic and social sphere, lay off staff in the administration and in parastatal bodies, deregulate, decentralize and liberalize administrative, political and economic structures — thus to move from a planned to a market economy.

In the light of past negative experiences and following pressure from donor agencies, official development policy is also undergoing change. For instance, it is shifting target groups of development programmes to the rural poor and to disadvantaged groups such as women, youth and indigenous and tribal peoples. Furthermore, as far as agricultural development is concerned, the emphasis on improving and increasing the production of cash crops for export is changing. Attention is now given to the production of food crops for local markets, the processing of raw materials and employment creation outside agricultural production. Paternalistic programme planning and implementation are being replaced by participative approaches in project management and evaluation and participative research, policy formulation and law-making. This is leading to: a new interpretation of instruments for self-help promotion; a shift from state-controlled cooperatives as the only officially recognized form of self-help organization to a variety of forms ranging from informal groups to formalized but non-cooperative

self-help organizations (such as farmers' associations, economic interest groups, etc.); and a rediscovery of the value of literacy campaigns, general education and community development for overall development.

Under structural adjustment programmes, the government services in charge of promoting development are also being restructured and their functions reduced. As a result, many tasks which were formerly in the hands of government officers are now being carried out by local institutions — as well as by organizations of the United Nations system, NGOs with regional offices (for example, ICA or the World Council of Credit Unions (WOCCU)) and joint ventures with partners in industrialized countries and developing countries.

The term "cooperative" has fallen into disrepute in many developing countries, particularly in those in which cooperatives were state-controlled in the past (e.g. in Ethiopia, Guinea, Madagascar, Mali, Sudan, United Republic of Tanzania and Viet Nam) and membership was not voluntary. Members consider the cooperatives "government affairs" and frequently do not know their rights, because they have never been given a chance to use them in practice. Even in other developing countries, which merely exercised product price controls and/or in which cooperatives practised equal treatment of non-members and there was little or no participation of members other than in trade terms, members are critical of their cooperatives. They do not feel promoted but rather exploited — or do not even see themselves as members. Since liberalization began, existing cooperatives have even been deliberately sabotaged by their members in some instances (e.g. industrial and housing cooperatives in Ethiopia); meanwhile new organizations have been established, firmly based on cooperative principles and voluntary membership.

The experience has been quite different in cooperatives which can freely market food crops or other items and the members' perception of cooperatives is largely positive. The same holds true for cooperative-type organizations in the informal sector whose members consider them as self-help organizations which are useful — if not vital — to them. Hence they are prepared to commit their own resources to strengthen joint undertakings. Credit unions are a good example of such self-reliant, self-managed organizations; and build on pre-existing groups, educated membership and democratic management and control; they also work with their own funds and offer their services to members only. Effective strategies by cooperative apex organizations can also lead to significant changes in the perception of cooperatives and thus in membership. A good example of this is the development in Indonesia where membership in cooperatives has increased almost tenfold in the last 20 years.

Despite such positive examples, many cooperative members and the general public still often perceive cooperatives as being state-controlled or state-sponsored, economically inefficient and socially defunct organizations, which put the interests of either the State or paid professional managers before those of their members. In order to overcome these prejudices, more publicity must be given to the positive examples of cooperatives working in the interest of and to the satisfaction of their members.

Mergers, resulting in very large cooperatives, have often changed the relationship between members and their cooperative. The liberalization and globalization of markets have made it almost inevitable that cooperatives seek to achieve a scale of operation that is economically competitive — for members clearly cannot benefit from their cooperative unless it is economically efficient. Yet not all cooperative mergers have been well prepared, either in terms of management capacities or in terms of bringing

two distinct organizational cultures together while retaining member participation and control.

All in all the need to improve and strengthen the relationship between cooperative members and management and to develop new cooperative activities attuned to members' needs has never been greater. The preoccupation in many cooperatives with economic success to the exclusion of serving real member needs will have to be reversed if these cooperatives are to survive and prosper. Competition will remain fierce; and the capital resources available to cooperatives are unlikely ever to match those of their investor-driven competitors. However, cooperatives can and often do have the "competitive edge" — precisely because they exist to respond to their members' needs. If cooperatives could convince their members to forego short-term rewards in the interest of long-term investment, they might achieve a period of pronounced growth — especially when investor-driven companies, acting short term in many areas, will have to face the consequences of their need to satisfy the immediate demands of their shareholders.

1.2.2. Economic effects

The early phases of structural adjustment had a considerable impact upon many cooperatives. This may be resumed as follows:

- Unemployment increased in many countries, often making it difficult for members of savings and credit cooperatives to meet their financial obligations (e.g. in Zimbabwe). In addition, inflationary tendencies made credit expensive and endangered repayments while causing negative interest rates on savings and a decrease in available loans; they also resulted in unreliable accounting and financial reporting.

- The discrepancies between lending and borrowing rates also affected housing cooperatives which, as a consequence, frequently — and for several years — were less active than before structural adjustment (e.g. in Zimbabwe).

- The purchasing power of the population usually declined dramatically (e.g. in Gambia) while food prices soared. Consumer cooperatives suffered the most from this situation. However, they were able, at the same time, to contribute significantly towards curbing inflationary tendencies created by speculative traders and to ensure a continuous supply of foodstuffs to the low-income population.

- Many agricultural marketing and supply cooperatives lost their monopolistic status which had previously guaranteed them a certain economic success. Single channel marketing systems and regional parastatals in marketing and processing were dismantled in some countries and/or sectors. Many farmers and/or their cooperatives no longer received product or credit subsidies, credit guarantees, export or tax privileges and protection from foreign competition. The cut in producer subsidies, for example, caused the market share of Gambian groundnut cooperatives to drop from 81 per cent in 1986-87 to 52 per cent in 1989-90, lowered the market share of coffee cooperatives in Uganda from 100 per cent to 15 per cent and that of Ugandan cotton cooperatives from 100 per cent to 65 per cent. Consequently district or regional unions had vast overcapacities in processing and storage facilities and had to lay off personnel.

- Apart from the suddenness with which they were exposed to competition from private and foreign suppliers (e.g. in Zimbabwe) agricultural cooperatives also suffered severely from increased input prices, transport costs and unreliable access to credit. As a result some producers situated far from markets were discouraged to produce — while there were others for whom the only marketing agent was a cooperative. Recently farmers and food processors have started to deal directly with each other, even allowing contracts for future crops (e.g. in Zimbabwe). The net effect of this trend varies according to the country. In some countries the experience of agricultural cooperatives in grain marketing, storage management, consumer and input-supply, as well as in the management of agricultural credit, has made them more important (e.g. in Zambia). In other countries, they have lost membership and support (e.g. Ethiopia). In any case, in order to meet the challenges ahead, cooperatives have to enhance their business skills, make sure they have access to the market information required and prepare to collaborate sufficiently well with other market participants. (These are the main points COOPREFORM, COOPNET and INDISCO address in their efforts to help countries restructure their cooperative sectors.)
- There is another side to the coin, however. Privatization highlights the role of cooperatives in providing regular employment, paid employment, income generation, human resource development and improved social conditions. There are numerous examples of new cooperatives using the opportunities created by the liberalization of economies (e.g. consulting cooperatives formed by the former staff of cooperative authorities, workers' cooperatives of previous state employees (e.g. in the health sector) and insurance cooperatives where the state monopoly on this industry has been lifted (e.g. in Zambia). Many existing cooperatives are — or are in the process of — streamlining their activities thus eventually gaining footholds in new markets (e.g. the Gambia Cooperative Union and some Zambian cooperatives which now export agricultural commodities themselves).
- In some countries official support programmes for owners of small and medium-sized enterprises (e.g. in South Africa) or for the local processing of raw materials have opened new possibilities for cooperative-type industries and support structures.
- Repositioning is made more difficult for most cooperatives by the high costs they bear for having to give precise account to their members and for regular, statutory and costly external audits (while many private traders in developing countries are never audited). They also usually finance information, education and consulting services to their members and in general have social as well as economic functions to fulfil. Liberalization could lead to lower auditing fees if the auditing were carried out by cooperative federations, thus leaving cooperatives with the choice of which social programmes to offer to their members.
- Cooperative movements in many countries have undergone — or are in the process of — restructuring in order to adjust to a situation in which they face tense competition and in which the State can no longer afford financial support or even extension services to promote cooperatives (e.g. Zimbabwe). Frequently this restructuring results in a decentralization of functions from the central to the district level. It is to be hoped that this too will increase the decision-making

autonomy at the primary level and help relations inside the movement to become "bottom up".

- A new balance between the power of the State in cooperative affairs (its regulatory, supervisory and promoting role) and an autonomous cooperative movement has yet to be reached in many countries. Legislative reforms in various areas are needed to reflect the general change and to provide the necessary equality in status for cooperatives so that they might compete on even terms with investor-driven enterprises. In many countries the development of a legal and administrative framework to prevent the misuse of economic power by the newly freed private sector and to curb malpractice has not kept pace with developments in business and trade. Furthermore, although most national cooperative movements are adjusting to competition, not all bureaucracies are convinced that they can safely let go of their controlling power over cooperatives and their assets which have been — at least partially — financed with public money or privatize "their" capital assets (e.g. parastatal storage or processing facilities) by selling them to cooperatives. In other countries communist land tenure arrangements have to be changed. This does not necessarily imply a change to outright individual tenure regimes; but markets for land use rights have to be opened up and membership of cooperatives made voluntary and divorced from local land right patterns before agricultural collectives can change into marketing and supply cooperatives (e.g. in the United Republic of Tanzania).

- In recent years many countries have responded to the aftershock of structural adjustment by issuing new cooperative policy statements, new cooperative legislation and/or amendments thereto, details of which are provided later in this report.

- In some cases, previously state-run services have been privatized and become cooperatives, which has softened the negative socio-economic repercussions of structural adjustment. Senegal is a case in point. In response to structural adjustment, self-managed irrigation schemes, cereal banks, credit intermediaries, consumer shops and input supply and marketing cooperatives have been able successfully to replace parastatals in the management of food security systems, procurement of inputs, maintenance of rural infrastructure, the provision of certain social services and the establishment of savings and credit schemes. Hence they have contributed to the mobilization and efficient use of local and internal resources — a vital factor for the revitalization of developing economies. Savings and credit cooperatives have also helped to cushion the effects that cuts in the credit subsidies have had for many. Group financing, revolving funds and credit-marketing link-up schemes have, in some countries, become incorporated into the cooperative sector and now provide new opportunities for using financial resources locally, thus resulting in less time lost in terms of transaction costs than would be lost if everyone had to take their money to a city bank or keep it under the mattress.

1.2.3. Political effects

In many countries the cooperative movement has disassociated itself from the ruling party — if not all prior political affiliation (e.g. in Zambia). Not only are adminis-

trative functions being slowly but surely shifted from the national to the local level, this is also occurring with the general focus of political activity. At this point in time the localization of politics has not everywhere been sanctioned constitutionally. Yet the resurgence of terms such as "civil society" and "subsidiarity" in the public statements of international organizations and in national political agendas is so frequent that it may be assumed that this trend has already gained significant momentum. However, administrative decentralization and the transfer of real political decision-making power to the local level are not always met by the necessary corresponding allocation of additional financial resources to that level. Although this raises problems for the citizens in need of services in the general interest, it creates new opportunities for cooperatives. In building partnerships with local government, they can diversify their activities and/or be more effective in lobbying for regulatory change.

Not everywhere have local governments gained the capacities necessary to fulfil their new roles effectively. Unless they do, or can obtain assistance at a level close to the local level, the development contribution which decentralization promises in theory might not prove attainable in practice. Here cooperatives may be asked to assist in rendering services which will need to be remunerated, yet the relationship between local government and cooperatives could be fashioned in very many ways and the price for such services negotiated on the basis of local perceptions of value.

Cooperatives are also reporting that the process of democratization has made the need for literacy among their members even more important (e.g. Botswana).

1.2.4. New trends in cooperative promotion

The political and economic changes in developing countries have resulted in changed roles for the State, cooperatives and apex organizations alike. While the coexistence of "free enterprise (or commercial) cooperatives", "state-sponsored cooperatives" and "self-help groups" has become an accepted fact in many countries, the promotional roles of the State and apex organizations have been changed. This may be illustrated by the following:

- In Zambia, the state marketing of agricultural products was stopped almost overnight whereas in Senegal, the State decided simply to dissolve state mechanisms and institutional structures of development and to transfer their functions directly to cooperative structures. In other instances the State planned a strategic and planned withdrawal (e.g. in Cameroon, Niger, Philippines, Singapore, the United Republic of Tanzania, Uganda), but this was not always accepted wholeheartedly (e.g. in Uganda) or successful. Elsewhere a policy of "muddling through" was chosen, without any but a cosmetic change to the salient policy and legislative issues. This usually resulted in weak control mechanisms encouraging negligence and unfair practices, unmotivated government officers, inefficient cooperative management and undetected errors, embezzlement, breach of trust and unsanctioned cases of corruption (e.g in the case of some credit cooperatives in Malaysia), thus tainting even further both the reputation of cooperatives and the image of the government service in charge of cooperative development.
- In other cases, the Government legalized already existing but hitherto illegal, unregistered cooperative self-help organizations (such as ROSCAS, *tontine*, *adjo*,

naam groups, *harambee* groups or *gotong royong*) or the establishment (and in some instances registration with simplified regulations) of alternative forms of cooperatives. This means that, alongside the formal cooperative sector, there are now a variety of cooperatives in many countries. These include: village groups in Burkina Faso, Mali and Niger; common initiative groups in Cameroon; economic interest groups in Senegal and other French-speaking African countries; credit cooperatives in Indonesia; and pre-cooperatives in Côte d'Ivoire.

As the State withdraws, cooperative apex organizations (federations, confederations, unions) have the opportunity to fill some of the vacuum left. Whether, however, they are ready to foster the kind of support that cooperatives need to reposition themselves as well as to supply long-overdue basic member education at local level, depends upon the various countries. In some instances, these tasks are fulfilled by NGOs and community organizations (e.g. Sadguru Water and Development Foundation in Gujarat, India, which has established more than 200 primary cooperatives in recent years and SEWA, also an Indian NGO, working with women cooperatives and "seed-loans"). In other countries cooperative apex organizations in the agricultural business sector have been edged out by non-cooperative crop-based organizations (in the United Republic of Tanzania, for example, the Association for Coffee, Cotton, Tobacco and Cashew Nut Crops). However, the Kenya Planters' Cooperative Union clearly demonstrates how, with accumulated experience, a cooperative federation can successfully reposition a whole cooperative sector and remain dominant in the industry.

Federations which until now have only had representative functions within a state-sponsored cooperative system (as was the case for most Asian federations) must learn how to provide support services and help their member cooperatives establish the necessary vertical and horizontal integration — including forward and backward linkages and the opening up of access to highly professional and well-focused management support services (in the fields of education and training, auditing, management consulting, project planning, capital restructuring, organizational development, etc.) — which primary cooperatives need in this process of transition; if they fail to provide this support, they may well perish.

On the whole, experiences in regard to possible new relations between the cooperative sector and the State would mainly suggest the following:

- A mere transfer of Western policy, legislation or organizational models will not suffice. The development of a truly autonomous and self-reliant cooperative sector means that there must be room for experiments and mistakes. However, in order to reverse the negative trends produced by too much state intervention in past cooperative affairs, there must be recognition — if it is accepted that cooperatives form an integral part of overall socio-economic and political development — that the kind of support structures and political representation they need in developing countries go beyond those required by cooperatives in industrialized countries. The relationship between members and cooperative management, as well as those between cooperatives and local authorities are — for a whole host of reasons — different and the educational tasks ahead of institutions promoting cooperative development are much greater than in the past.

- Without members' sustained support and involvement in business, capital and management, cooperatives simply cannot survive. This realization has been dawn-

ing upon those who set agendas for social and economic development. It is vital, though, that governments do not withdraw support too abruptly. Cooperatives and their apex organizations need time to mobilize their resources, build their strength and managerial capacities, and learn to cope with the pressures of competitive markets. Governments must therefore give cooperatives sufficient time and assess the cooperatives' capabilities before phasing out this support.

1.3. Countries in transition

In the former communist countries, cooperatives played an important role in the political system and the centrally planned economy. Communist-style cooperatives were instruments in the hands of government and the ruling party and fulfilled a number of functions. Indeed, they served to:

- transform privately owned means of production into a special form of collective cooperative property as a transitional stage towards transformation into state property;
- implement centrally made plans and adjust them, where necessary, to local conditions;
- educate members in the communist way of life and offer them vocational training; and
- fulfil social functions by providing social services to members, their families and other persons living in the area they covered.

These communist cooperatives (agricultural, handicraft and industrial collectives and consumer and housing cooperatives) differed substantially from cooperatives in the Western industrialized countries. However, as far as their objectives and operating methods were concerned, they were officially recognized as cooperatives by the ICA and United Nations agencies.

With the decline of communist regimes these cooperatives lost their ideological foundation and state support. As a result of liberalization and the transition towards a market-oriented economic system, the leaders of collectives, consumer and housing cooperatives had to reorient their business policy and develop entrepreneurial skills, which proved to be difficult after decades of working for the implementation of state plans. The privatization of collective property took various forms:

- restitution of property to former owners (e.g. Czech Republic, former German Democratic Republic);
- privatization by means of negotiable coupons, distributed to members, employees and former owners and sold to interested parties (Hungary, Russian Federation, Baltic States); or
- dissolution and liquidation (in the case of unions and federations in Poland).

This left unsolved the question of the repayment of old debts — and in particular the repayment of loans issued by state banks to collectives and other communist cooperatives under the communist system.

In 1988, the former USSR adopted cooperative legislation which allowed the establishment of new autonomous cooperatives, with a minimum number of three mem-

bers. These constituted the first legitimate form of private group enterprises — although they were only allowed to operate in a limited number of sectors (service providers, restaurants). In the absence of effective control mechanisms, this opportunity was largely used to legalize informal and illegal business activities and to carry on business for gain. However, while cooperative activities were legalized, the new cooperatives were subject to serious restrictions, such as heavy taxes and bureaucratic measures left over from the communist administration (e.g. limited access to land, loans, raw materials, spare parts).

During the early years of transition, governments were hostile to all forms of cooperatives and favoured the transformation of collectives into companies. Due to their lack of guidance and experience with the mechanics of a market economy, members of collectives often voted to retain the form of cooperation with which they were familiar rather than venture into unknown territory.

Efforts to restructure and "de-politicize" cooperative unions, federations and apex organizations proved to be difficult. Not only was there a lack of leaders with experience of autonomous, market-oriented cooperatives but the primary cooperatives were weak and disoriented through the transition process.

A major obstacle to the establishment of new service cooperatives of farmers, traders, craftsmen and members of liberal professions was the fact that, in the first years of the new regime, there were not enough private farms, businesses and individual entrepreneurs to constitute a membership after decades of collectivization.

Another obstacle was the lack of an adequate legislative framework regarding ownership of land, property rights and access to financial services. In addition, there was no effective administrative machinery to put the new legislation into effect. Although the economy was liberalized at high speed, reforms of government structures at national, regional and local levels lagged behind so that these structures remained largely unchanged.

The pace and success of transition have varied from country to country; however, some common problems have emerged more or less clearly:

— after a decade of hasty redistribution of property, restructuring of former communist organizations and promulgation of new laws, there is need for a profound rethinking of known and tested concepts. A variety of models must be developed, not only to meet the requirements of the emerging market economy but also to cope with the challenges of the twenty-first century; which are very much the same all over the world;

— after the dissolution or disintegration of the former communist collectives, especially in the rural areas, many of the social services which these collectives provided (day-care centres for children of working mothers and for the elderly, youth clubs, recreation and vacation facilities, construction and repair brigades, canteens) are no longer available. Local governments are unable to finance such services and the only way to re-establish them is to provide such services by means of organized self-help;

— the most difficult task in the transformation of the economy and society — and the most important — is to change mentalities;

— local promoters are needed to carry out member education among former members of collectives, many of whom have bad feelings against anything termed "coopera-

tive". The general public in transition countries has to learn about cooperative values and principles, the benefits that can be derived from being a member of a cooperative in a market economy and the positive roles autonomous and self-reliant cooperatives can play in the new society;

— the training of promoters and trainers is the key to the success of such endeavours. Indeed, multiplicators not only need to acquire knowledge about the cooperative way of doing business but have to be convinced themselves of the benefits of cooperation before they can convince others. In order to create a favourable environment for cooperative development in transition countries, the main emphasis must therefore be placed on elaborating clear concepts, models and guidelines for cooperative activities in these countries. These might provide a basis for the training of promoters and trainers, elected representatives and employees of cooperatives and inform members, the general public, policy-makers and administrators on cooperative self-help. The ICA identity statement might serve this purpose, together with the revised ILO Recommendation No. 127 and the United Nations Guidelines, elaborated by the Committee for the Promotion and Advancement of Cooperatives (COPAC).

1.4. Industrialized countries

In industrialized countries, cooperatives have gained recognition as an economic and social force. Service cooperatives of farmers, craftsmen, traders, members of liberal professions (such as medical doctors, pharmacists, tax consultants), consumers and tenants have developed from modest beginnings into large-scale, professionally managed business ventures in full competition with commercial firms. During the past four decades the number of primary cooperatives has been drastically reduced by mergers, while the number of members has increased. The economic efficiency and competitiveness of cooperative enterprises have thus been greatly enhanced, while the distance between individual members and their cooperatives has grown; in many cases, members have turned into mere customers and shareholders.

There is a clear tendency for large cooperative enterprises to detach themselves from their membership group and turn into management-dominated general interest enterprises.

A number of measures may be taken (and have already been taken in Japan) to prevent large cooperative enterprises from constantly trying to align themselves with the company model and, in the final analysis, losing their cooperative character, to preserve the cooperative identity of such large organizations and to make their managers aware of the fact that doing business the cooperative way may give them a competitive advantage over commercial firms. They must be made to understand that:

- members are generally better customers than non-members;
- business with non-members has to be restricted or even prohibited to avoid such business becoming the primary objective;
- management can concentrate on high-quality services to members without continuously striving for shareholder value, because members are more interested in the quality and reliability of services than in high return on invested capital;

- cooperation among cooperatives in integrated systems makes it possible to combine the advantages of closeness to members with those of large-scale operations; and
- members are willing to support and control their cooperatives, provided membership is worthwhile and members are given real opportunities to exercise democratic control.

In practical terms, this means that: large cooperatives have to maintain and reinforce information and communication systems between members and management; build up representative structures; give office-bearers (voluntary leaders), managers and employees the opportunity to learn about the cooperative corporate philosophy; and use legislative mechanisms to tie cooperative managers to their task of member-promotion (e.g. prescribe transparency and accountability of managers towards members regarding services provided to them; promotion report as mandatory item of the agenda of general meetings; performance audit; liability of managers for failure to target membership promotion).

Alignment of cooperative enterprises with their commercial competitors also means that the tax treatment of cooperatives will be similar to those of commercial firms, if specific characteristics in their business policies and set-up no longer justify their particular cooperative status.

In many industrialized countries the established cooperative system is composed of a decreasing number of large primary societies and a similarly decreasing number of regional federations, unions and national apex organizations. In some countries there are relatively few newly established cooperatives (e.g. an annual average of 30 new cooperatives in Germany), whereas in others there is an increasing number of new cooperatives (e.g. Finland, United Kingdom).

After decades of continuous growth and unshaken belief in almost unlimited economic and technological progress, the limits of growth have become visible. People have become aware of the dangers of the destruction of the environment, the social tensions caused by long-term mass unemployment and the growing gap between the rich and the poor in an affluent society. Problems caused by undermining the social security network in a society characterized by increasing individualism, disintegration of family structures and an increasing number of elderly persons without family support, are becoming increasingly apparent. These serious changes in the social, economic, demographic and ecological environment in which cooperatives have to operate make it vital to reconsider the role that they will play in the future.

While in many European countries cooperatives are considered elements of the private sector, in other countries (e.g. Belgium, France, Italy, Portugal, Spain) cooperatives, together with associations and mutual insurance organizations, are perceived as part of a new, alternative or "third" sector of the economy, referred to as "*économie sociale*". In this "third" or alternative sector, the hierarchy of goals pursued is different from that of investor-driven enterprises. The well-being of the members — or more generally mutual solidarity, concern for the community and protection of the environment — rank above shareholder value. However, also in this "third" sector, economic efficiency and competitiveness remain preconditions for survival in the market-place.

After building full-service social welfare states for decades, governments have been forced to cut down on expenditure because of the growing burden of public debts. This has resulted in a reduction of public spending on social security and health

services, causing hardship for the less advantaged groups of society. To fill the gaps left by the withdrawal of the State, private initiative and organized self-help are becoming increasingly important.

Growing unemployment is also caused by strategies of industry to modernize through merger and acquisition and to develop new labour-saving technologies which replace workers by robots. As a result, factories or enterprises belonging to large international conglomerates may disappear practically overnight — together with the jobs they used to offer, if this fits into the corporate strategy. In such an environment, large numbers of workers lose their jobs and tens of thousands of young persons remain without training opportunities or jobs, with the danger that they might be excluded from the mainstream of society.

There is an urgent need to deal with these problems which apparently cannot be solved either by the State or by the market. This is a classical scenario for cooperatives, applying the principles of self-help, mutual assistance, solidarity and social responsibility.

New forms of cooperatives are emerging in response to these problems. However, they are not always recognized as useful and supported by most of the established large business cooperatives. They often lack an appropriate legal framework geared to their needs, because the existing cooperative legislation has been drafted and/or amended over the years to meet the needs of large cooperatives (e.g. in Germany). In these cases, the organizational costs are too heavy for small cooperatives to bear. Furthermore, general support services for establishing new enterprises are often not accessible to such new cooperatives. A research project sponsored by the European Union (DIGESTUS) is currently investigating what changes have to be made in the laws governing business organizations in the European Union Member States to make the legal framework more favourable for small, self-managed firms or cooperative societies.

In some countries, special legislation (e.g. Italy, United Kingdom) or amendment of existing cooperative legislation (e.g. France) have already improved the legal environment for such cooperatives. Special organizations or programmes have been set up to disseminate information on new cooperative solutions for pressing social, economic and environmental problems (e.g. France, Italy, United Kingdom). These solutions include: community cooperatives; cooperatives for social solidarity; *unions d'économie sociale* as multi-stakeholder cooperatives; and associations pursuing non-profit economic activities (Japan).

1.5. From state-sponsorship to autonomy: Return to grass-roots democracy

1.5.1. Change in environment, changing roles

As a result of the changing environment in the developing countries and transition economies the roles of the State and cooperative apex organizations in cooperative development have altered. While some countries have taken radical measures to extricate the State and Party from the cooperative movement — such as Poland's decision to dissolve all politicized unions and federations of cooperatives and "start from scratch" — others have developed "planned transition" alternatives for a "softer" reorganization of the State to enable it to provide the necessary support services and the cooperative movement to shift from state-sponsorship to autonomy.

As the implementation of structural adjustment programmes continues and liberalization takes root in the developing world, the countries which were once the principal supporters of cooperatives are rapidly withdrawing their support for them. The vacuum thus created has made it imperative to look more closely once again into the role of the cooperative apex organizations to examine whether they might take over some of the functions held earlier by the State. To provide the necessary assistance to cooperatives as they undergo major adjustments, the apex organizations will need to reposition themselves in such a way as to foster support that expands and enhances the effectiveness of the emerging autonomous cooperatives.

The vacuum in the field of cooperative promotion at the grass-roots level is now being filled by some specialized local NGOs and community organizations in many developing countries. As mentioned earlier in the text, the Sadguru Water and Development Foundation in Gujarat (India) has assisted tribal groups in recent years to establish more than 200 primary cooperatives to generate employment and income. Local NGOs are also conducting member education programmes aimed at strengthening member participation in cooperative management. Another NGO in India (SEWA) has been helping groups of poor women to organize themselves in cooperatives and obtain small loans to initiate business ventures.

1.5.2. Globalization and regional trading blocs: Opportunities and risks for cooperatives

Globalization has reinforced the influence of market forces while overcoming many of the problems inherent in geographical distances through advances in communications and transportation. Rapidly declining telecommunications costs are tightening financial integration, opening up possibilities for new types of international trade and promoting the diffusion of ideas. Globalization has greatly increased the importance of multinational companies, NGOs and regional trading blocs and fostered policy coordination between countries; it has also created a need for mechanisms, national as well as local, to enforce credible rules.

The "East Asian Miracle" and the recent crisis have revealed both the promise and the perils of globalization. By liberalizing trade, economies in the region have enlarged the markets for their producers and derived productivity gains from competition both in the export sector and for import-competing industries. By attracting foreign direct investment, East Asia (and some of the Latin American countries) have secured access to capital, technologies and organizational expertise. This has enhanced industrial capability overall, boosted the modernization of infrastructure and brought about a much-needed overhaul of producer services such as banking. However, the crisis spreading across the region since mid-1997 highlights some of the risks associated with globalization. For instance, financial integration can magnify the severity and duration of shocks as a result of transmission effects. In the absence of robust safety nets, such as cooperatives, these can lead to a worsening of poverty and a deterioration in the political climate. Thus the change in the complexity of the development process caused by globalization makes it a major factor in future institution building and policy.

The globalization of trade and finance is a phenomenon in which cooperatives seem to take little interest, with the exception of cooperative banks such as *Crédit Agricole*

(France), Norinchuki Bank (Japan) and Rabobank (the Netherlands), and insurance cooperatives operating under the umbrella of the International Cooperative and Mutual Insurance Federation (ICMIF) which has developed a global reinsurance system.

The regional trading blocs established in Europe (EU and EFTA), in the Americas (NAFTA and MERCOSUR), in Asia/Pacific (SAARC, ASEAN and APEC) and in Africa (SADC, PTA and CEEC) are building new barriers to protect the economies of member States. On the threshold of the new millennium, cooperatives are now discussing how to react to these economic groupings. In Europe, for instance, cooperatives have started discussing the impact of enlargement of the European Union (EU) on cooperatives and their members. In an ICA European seminar held in 1997, it was pointed out that cooperatives would have to confront some negative repercussions of European integration. The reality of the open market means that only the strongest will survive. In order to create economic strength, small and medium-sized cooperative enterprises will have to consider the possibility of mergers. In this case, care must be taken to ensure that cooperatives do not lose sight of their social responsibility, i.e. the care of their members.

Another parallel solution could be improved cooperation with cooperatives from other sectors. If the mutual assistance system among cooperatives works well, difficulties are easier to surmount. This is the basis of the 6th Principle of the ICA: "Cooperation among cooperatives".

Does enlargement represent an opportunity or a threat for cooperatives? The answer to this question is very complex, but one thing is certain: much depends on the cooperatives themselves, on national policies and on how cooperatives take advantage of this immense opportunity to minimize possible threats.

1.5.3. Decentralization brings new hopes and challenges

Alongside globalization, we are also witnessing a shift in the focus of political activity to the sub-national level — a process known as localization — which may be attributed to many causes. At the end of the cold war, many powerful forces were unleashed. The conspicuous failure of the centralized economic model became apparent and there was an international circulation of ideas among a growing and more politically aware urban population. There was also the belief that many governments were failing to realize broad-based development. All these factors are diminishing the authority of the centralized State, placing greater emphasis on local identities and creating a popular demand for greater participation in public decision-making.

Decentralization is the transfer of decision-making powers to more directly concerned, lower levels of government and administrative authority. The latest moves towards decentralization in Europe include the recent vote for devolution to a Scottish Parliament and the 1992 revision of article 23 of the German Constitution to give the German Länder a qualified say in European affairs. And in France, the 22 regions are steadily extending their original regional planning remit. In recent years, attempts have been made to turn prefecture governments (the most important local governments in Japan) from national organs into local political bodies that are much more responsive to local constituents.

In some regions, this is leading to the redefinition of borders and outright secession: 21 new countries have been created since 1990. In countries in which political

accommodation has proved possible, the spread of localization is evident in the increasing share of sub-national governments in total government spending.

National governments have responded by decentralizing in a variety of ways, by granting local autonomy; by increasing local resources; or by shifting functional responsibilities to sub-national governments. In principle, decentralization can be a means of improving the efficiency and responsiveness of the public sector. By transferring decision-making powers to levels of the government that are closer to the beneficiaries, decentralization can give citizens greater influence over the level and mix of the government services they consume and greater ability to hold their public officials accountable. To date, however, it is not clear that the potential benefits of decentralization have been achieved. Meanwhile, local authorities in most countries need to develop the capacity and procedures to take advantage of the opportunity provided by decentralization.

The opportunities offered by decentralization should not be overestimated. Decentralization will not bring about the inclusion of marginalized groups in public life, but it does create the social and political structures that might make this possible. Cooperatives may be considered as an important structure in this context. It is widely known that cooperatives are more creative and responsive to the needs of their "communities". But the willingness to contribute to or participate in local development requires a minimum of resources and knowledge — and takes time. As self-government policy creates an initial temptation to expand services, cooperatives and other community-based organizations might have a better chance to build new partnerships with local government entities to diversify their activities.

1.5.4. "Participation": New partnerships emerging in development

The word "participation" has been part of the development vocabulary since the 1960s. At that time, however, it was usually understood to mean people's involvement in some very specific kinds of programmes. Today, participation is viewed as integral to the overall development effort. Global changes have had a major influence on this shift in approach: increasing democratization and more open political systems; more open economies and trading systems; higher levels of education in the developing countries and increased human resource capacity; more rapid and widespread forms of communication and information flow; and increasing concern about environmental and poverty issues.

Traditionally, many development operations have been subject to what might be termed the "external expert syndrome". In other words, outside professionals set the objectives of a project, undertake its analysis, prepare it for financing and manage the implementation. Local stakeholders might be "consulted", but are rarely allowed to have real influence based on their knowledge. This "syndrome" has reached staggering proportions in some regions and, according to a World Bank estimate, over 80,000 technical assistance expatriates were working in sub-Saharan Africa at an annual cost of around $4 billion a year.

Failing to involve local people in development has often led to resentment against so-called "external" approaches, a lack of commitment to projects and — ultimately — a failure to achieve desired results.

This shift in approach has also influenced the UNDP's funding modalities. From the early 1990s onwards, the so-called "agency execution" modality has been replaced

by "national execution". A number of bilateral development agencies, including Canada, Germany, the Nordic countries, the United Kingdom and the United States have also made changes in their development assistance policies to support local institutions for participatory development.

Cooperatives are known to be schools of participation. This shift in development approach has therefore opened a new window for cooperatives to build partnerships with other players and stakeholders, such as local and national governments, donors, NGOs and international organizations. Cooperative organizations in industrialized countries have established specific development units in their structures to assist cooperatives in the developing countries. The Rabobank Foundation (the development arm of the cooperative bank of the Netherlands), Canadian Cooperative Association (CCA), KF Project Centre (Sweden), German Cooperative and Raiffeissen Federation, *Crédit Mutuel* (France), Legacoop (Italy) and Central Union of Agricultural Cooperatives (Japan) are among the builders of this new and participatory movement-to-movement development alternative.

1.5.5. The survival kit for primary cooperatives: Participation plus mergers

Cooperatives must recognize that they have to maintain their local community base to be able to respond to the qualitative issues on service delivery. At the same time, they must achieve all the leverage and economies they can to stay competitive. The decision to merge is vital for many cooperatives. Developing the will to merge, the management capacity to merge, and maintaining links to the membership, require leadership and professionalism and an appropriate organizational culture.

Cooperatives that simply grow big and fall to the threat of management take-over will fail commercially as well as cooperatively. If they fail to capitalize on their best competitive resource (i.e. their unique cooperative identity and membership), commercial failure will be certain. Competition will remain intense and the capital resources potentially available to their rivals are too great for them to survive without a competitive stance that differentiates them and mobilizes their stakeholders. The cooperative identity provides them with the competitive edge.

A shared culture and objectives could greatly facilitate the smooth implementation of mergers between cooperatives that were value- rather than institutionally-oriented. Focus on the democratic rather than the associational aspects of cooperation has created barriers to change. Emphasis on formal governance has left many members effectively excluded from involvement. The result of this is often the worst of all worlds — narrow parochialism from the lay leadership and low participation by the mass membership, on the one hand, and a cynical management which only views membership as a handicap on the other. Today the techniques and technologies exist to communicate, consult and involve vast number of members over great distances on frequent occasions. Ensuring regular contact with the members on terms that make sense to them and the other stakeholders could ensure that cooperatives enjoy leverage and locality after having merged.

2. The potential of cooperatives

2.1. The potential of cooperatives in general

The potential of cooperatives to contribute to overall economic, social and societal development was well described in the report to the 49th Session of the International

Labour Conference (*The role of cooperatives in the economic and social development of developing countries*) when the process towards the adoption of Recommendation No. 127 of 1966 was set in motion. Since that time they have continued to fulfil an important role in creating (self-)employment opportunities, improving working and living conditions for millions and making essential infrastructure and services available in areas in which neither state nor investor-driven enterprises would venture.

Cooperatives have also done much to integrate poor, indigenous and tribal peoples, as well as women, into the mainstream of economies. Today their contribution towards the alleviation of migration pressures and the creation of jobs for young people, disadvantaged population groups or the handicapped, who would otherwise have been unemployed, has become increasingly important. The efforts of cooperatives to establish international trading and information networks, make optimum use of local and natural resources and make available educational and technological advances in remote areas, also bear witness to their specific aptitude to draw advantage from economic, social, ecological and cultural progress.

However, their path of development has varied from country to country. In some developing countries they were state supported to the point of becoming state controlled because it was believed they could achieve economies of scale, break the power of monopolies and help their members integrate into the economic mainstream. Cooperatives in communist countries became part of the concept of common ownership of means of production and were meant to help overcome human alienation. In industrialized countries they were seen to be private sector organizations, but also frequently received state support if and where their functions were deemed socially valuable.

State support

State support to cooperatives has not proven altogether satisfactory for the reasons outlined earlier in the text. In the case of many national cooperative movements state interference turned out not to be promotional but rather an obstacle to their inherent potential to create employment and raise working and living standards. In this respect, cooperatives have been unable to play as significant a role in social development as was hoped earlier this century. Lately, however, most governments have expressed their interest in a situation in which members could establish autonomous and self-reliant cooperatives in order to pursue their economic and social aims through self-help — or could restructure existing cooperatives along these lines. Yet, there is no blueprint for creating this situation easily; there are only ideas (see later sections of this report) which may be derived from economic theory and the scientific analysis of past successes and failures.

Competitiveness

We need to appreciate that cooperatives are private self-help organizations and that in order to be competitive and provide long-term economic and social advantages, they have to be simultaneously efficient in three different areas:

- towards their clients/members, i.e. they must deliver the envisaged services;
- institutionally, i.e. they must be both economically viable and socially effective;

- towards their (external and member) financiers, because unless they also satisfy their interests they will be unable to obtain the necessary funding.

Being efficient in these three areas implies different things depending upon the environment or sector concerned. Commercial farmers, for example, differ considerably from part-time (industrialized Western European countries) or subsistence farmers (developing countries and transition countries) — both with regard to the services and economic results they expect and with regard to their education, economic knowledge and the kind of relationship they wish to have with their cooperative. Furthermore, these various groups face different planning realities: modern commercial farmers look at monetary markets and modern policy and law, while most subsistence farmers are concerned with local, often traditional, law and their standing in the community which is frequently fairly closed. People who are entirely integrated into markets and the modern legal system also have different expectations of the role they can or should play in running this organization than people who have so far always relied on customary systems for their access to resources, their legal status and their social security. And last but not least: it might be easier for a commercial cooperative in an industrialized country to obtain finance for growth than a new rural cooperative in a developing or transition country attempting to obtain start-up finance.

During the last century — and in the first half of this one — a large number of cooperatives in industrialized countries developed into successful and well-funded movements because they were innovative (e.g. the Raiffeisen cooperatives in Germany). They often achieved this success despite unfavourable environmental conditions — and even used these conditions to their advantage in the course of their activities. Today, however, although many cooperatives have reached economic scales — sometimes with significant support from the public sector — which allow them to compete effectively, many of them have accepted high proportions of non-member capital, given up being truly member-driven organizations and/or are in the process of transforming into investor-driven enterprises. On the other hand, numerous new cooperatives are being established (in developing countries and transition countries as well as in industrialized countries), mostly in reaction to changing lifestyles and levels of public service provision. These new cooperatives frequently represent the type of organization people turn to in their search to obtain what may be termed "club, collective or public goods", which the State cannot or does not deliver. Interestingly enough, infrastructure cooperatives today represent the strongest of all cooperative sectors in Romania.

International experience

International experience shows that the critical factors for the success of a cooperative are usually tied to its own membership group (levels of participation and identification) as well as to external (environmental/political) factors and that internal obstacles to motivation and active participation can be as serious as all external obstacles taken together. The difference is that internal obstacles first can be relieved at least in part by clever strategic management of group and business processes, while a single cooperative has problems dealing with external obstacles — particularly those resulting from adverse property rights, which are more difficult to overcome in countries where patrimonial élites have been in power for a long time (e.g. in several

African countries) or where whole national systems of property rights have to be newly created as in many countries in transition in Eastern and Central Europe and in Asia.

What cooperatives can offer

Interpreting this evidence further, it becomes apparent that cooperatives can only achieve their comparative performance advantage over other organizations under specific local circumstances and by means of appropriate organizational norms. This knowledge still has to be applied to the design of development policies — and therein lies the difficulty. Yet, economic theory explains the comparative advantage that cooperatives have over other types of organizations in that they:

- develop a transaction cost advantage in mobilizing member initiative and resources;
- show a particularly high level of flexibility and adaptability to changing market situations;
- can successfully produce for or develop demand in niche markets due to their limited size;
- can build up own resources (e.g. indivisible capital, which in cases is a cheaper source of finance than any other) which make them truly autonomous, able to survive independently of external support and able to compete in the relevant markets;
- can become important local financing institutions, combining the local need for safe-keeping with that of entrepreneurial access to credit;
- inspire innovation, diversification and specialization in their members' enterprises;
- establish self-financed federative systems (e.g. regional coops or national unions) for consulting, training, marketing and political representation; and
- positively influence the institutional and normative patterns of local and national environment and international markets.

Evidence further points to the comparative advantage of cooperatives in social terms because they:

- are largely dependent on the membership of natural persons and thus usually locally bound, owned, directed and controlled;
- are the first to face the needs of the local population, are responsible (and hopefully accountable) to them and can rely on the knowledge of local circumstances as well as development potentials in planning their actions. This seems to be one of the prime reasons which render them uniquely effective for the privatization of public services and as suppliers of local infrastructure;
- instil a high level of identification of the group with the organizational aims;
- promote local knowledge and understanding of democratic processes;
- avoid the development of a recipient mentality on the part of members;

- are institutions capable of managing communal properties without either widening the gap between ownership and control rights or squandering precious resources by merely administering what should be wisely utilized — both in terms of the local economy and ecology;
- cannot run away merely because the capital employed can earn more elsewhere, thus giving local citizens a good measure of certainty in their own economic planning;
- bring members closer to their aims even if — or particularly when — environmental conditions have changed to their disadvantage.

Apart from these direct advantages, cooperatives are also seen to have indirect and longer term social and economic effects, which influence entrepreneurial attitudes and environmental conditions. Indeed, they are able to:

- initiate or support group processes resulting in the replacement of status thinking and misplaced fear of social reprisal by achievement motivation and confidence for the individual, both essential pre-conditions for local entrepreneurship (and particularly important in developing and transition countries);
- develop new, democratic structures of social control in primary units by integrating local habits, value systems, traditions and customs;
- limit the risk and multiply the gain from local experiments, spread local knowledge and allow for efficient use of public funds spent on training and consulting services to small businesses, farmers, craftsmen and women.

2.2. Economic activities

2.2.1. An overview

Cooperatives have significantly contributed to economic growth throughout the world. The United Nations estimated in 1994 that the livelihood of nearly 3 billion people, or half of the world's population, was made secure by cooperative enterprises. Nearly 800 million individuals are members of cooperatives today, compared with about 184 million in 1960. They account for an estimated 100 million jobs and are economically significant in a large number of countries providing foodstuffs, housing, financial and a wide variety of consumer services.

The macroeconomic significance of cooperatives may be seen by the market shares they hold. In Burkina Faso, agricultural cooperatives are the largest producers of fruit and vegetables for the national market and in Côte d'Ivoire they are responsible for 77 per cent of cotton production. In Uruguay cooperatives produce 90 per cent of national milk production and export 70 per cent of the surplus wheat production. In the United States, in 1998, 33 per cent of the agricultural market was comprised of cooperatives and rural electricity cooperatives operated more than half of the electrical lines, providing power to more than 25 million people in 46 states. In 1997, the contribution of cooperatives to GDP in the Philippines was 16 per cent. During the same year, cooperatives in Denmark were responsible for 94 per cent of milk processing, 69 per cent of farm supply and 66 per cent of cattle-slaughtering. Folksam, a Swedish insurance cooperative, held 48.9 per cent of the household insurance market and 50 per

cent of group life and accident insurance. In the Republic of Korea, 40 per cent of local agriculture was marketed through cooperatives.

Another impressive macroeconomic fact lies in the contribution cooperatives make to the maintenance of self-employment as well as the direct employment they are able to create worldwide. In transition countries productive and workers' cooperatives have traditionally been the largest employers in the economy. In the Russian Federation, the consumer cooperative movement reported 511,300 employees in 1998, while 92,000 persons were employed in the Union of Agricultural Cooperatives and Societies in the Czech Republic in 1997. In a number of African countries, cooperatives have become the second largest employer — surpassed only by the government. In this region the majority of salaried jobs have been created by activities in the agricultural sector — agricultural marketing, production, processing, etc. In South Africa alone agricultural cooperatives employed about 100,000 people in 1996; in Morocco the corresponding figure was 42,000.

In Brazil, it is estimated that the Organization of Brazilian Cooperatives (COB) provides over 296,000 jobs, while *UNIMED do Brasil*, a health cooperative, appears to employ 148,000 people. In India, cooperatives have, it is calculated, created over 13.8 million jobs. In industrialized countries the direct employment created by cooperatives is much higher than commonly held. In Japan, it was reported that the consumer cooperative movement provided 58,000 full-time and 95,000 part-time jobs in 1997. The cooperative sector of the EU alone seems to have offered more than 3 million jobs in 1995. At the end of 1992, the European Association of Cooperative Banks reported that European cooperative savings and credit institutions had created 425,000 jobs; the General Committee of Agricultural Cooperation in the EU (COGECA) and the Union of Independent Retailer Traders' Groups in Europe (UGAL) alone had 720,000 and 719,000 employees, respectively. This list is not exhaustive.

The greatest direct economic impact of cooperatives at the micro level surely lies in the additional income they create for their members. They achieve this by: securing higher prices for their products (marketing cooperatives); lowering input costs — thus either enabling members to use higher input levels, achieve higher production levels and/or have larger profit margins (supply cooperatives for farmers and craftsmen); employing their members (productive cooperatives), introducing innovations; offering insurance (insurance cooperatives and mutual societies) and credit at a more favourable overall cost; and paying reasonable interest on savings in addition to saving members transaction costs by being accessible locally (savings and credit cooperatives). Consumer service cooperatives help their members obtain consumer goods (consumer cooperatives) at lower prices; deliver education (university cooperatives); or lower their cost of housing (housing cooperatives), travel (tourism cooperatives), medical or elderly care (e.g. care cooperatives).

Means by which cooperatives deliver economic activities

The most successful cooperatives promote their members by improving:

- the productivity of their subsistence activities or in their own enterprises;
- their market position as producers, consumers or employees;
- their access to material and non-material resources;

- the predictability of incomes, production levels and prices;
- their living conditions through the provision of social and physical infrastructure;
- their know-how, formal or informal knowledge, standards of information or education and training.

Drawing on recent research, most of the comparative advantages of cooperatives over non-cooperative NGOs and conventional business organizations may be attributed to their lower transaction costs, which may be explained by:

- their particular organizational form: their specific combination of hierarchies in executive and implementing management on the one hand with democratic decision-making and market forces on the other;
- their ability to lower information costs, e.g. by overcoming asymmetric systems of information;
- the fact that they limit production and market-related risks for their members; and
- the fact that they carry out mutually dependent rather than one-sided investments.

In the past, it was frequently held that cooperatives had two major advantages: their ability to achieve economies of scale and to break the power of monopolies. However, this is not so relevant today because wherever economies of scale matter most, purchasing the relevant produce from large firms usually proves more lucrative than production inside a cooperative. Furthermore, the monopolies that cooperatives were able to break in the past were usually of a local nature, whereas they could hardly ever tackle regional or national monopolies.

Cooperative advantages

Cooperatives may also have advantages when it comes to horizontal and vertical integration. They can relate particularly well to other cooperative enterprises with which they have forward or backward linkages; however, even private firms are frequently eager to work with cooperatives since they rely less on external short-term capital than investor-driven firms and, by virtue of that fact, face less speculative influence from non-sector stakeholders. Decisions on cooperation are also usually made by — or at least in the interest of — members and according to a whole range of criteria. Cooperative collaboration frequently encompasses a long-term view of interests, a member-focused appreciation of risks and allows for interdependent investments by both members and cooperatives which are only possible because members share the same information and ownership status. This in turn increases the trust members and cooperatives have in each other and heightens the level of loyalty over and above that which could be built up with any other partner.

Small savings and credit cooperatives — which frequently played a role in the transition from subsistence to market economies and were of vital importance in Eastern and Central European countries in transition and during structural adjustment in African and Asian countries — can, just like local moneylenders, benefit a great deal from their cost advantage with regard to obtaining information on their customers/members. The knowledge gained (and distributed) by the cooperative may be called "coordinative knowledge" and represents a valuable asset which is equally important

in other kinds of cooperatives. Agricultural cooperatives, for example, can profit much from their members' knowledge on local soils and micro-climates when it comes to making mechanization available or introducing new crops.

The secret of the potentially lower information cost and investment trust advantages of cooperatives lies in the fact that knowledge remains accessible in a decentralized manner, yet it is still available for coordination. The specific trade-off between common and individual knowledge of potential competitors, that is to say the "economic use of knowledge and learning" is at the root of many comparative advantages of cooperatives versus investor-driven organizations and official intermediaries.

In general cooperatives can derive the maximum economic gain from their comparative organizational advantage if they are active in the following areas:

- supporting members by supplying them with inputs for their agricultural and non-agricultural production, trade and service activities;
- processing and marketing of primary products and services;
- collective production of consumer or industrial goods or service delivery by members;
- collective production and supply of local infrastructure (public goods), such as education, training, health and care services, energy, drinking and irrigation water;
- information, education, training and consulting services (e.g. improving the entrepreneurial competencies and innovative capacities of their members);
- supporting their members in the exercise of their political, economic and modern legal rights (including opening access to institutions of modern law, encouraging the use of members' full credit worthiness, creating access to markets and developing markets where none existed before, etc.).

To what extent cooperatives will have an economic impact on member households or enterprises will depend, however — apart from their membership composition — primarily upon their degree of participation in the setting of objectives, monitoring and control processes, as well as upon the availability of the necessary capacities. That is precisely why cooperative management has to be different from the management of investor-driven firms.

2.2.2. Trends in cooperative delivery of economic activities

Agriculture

The experience of agricultural cooperatives in grain marketing, storage management, consumer and input-supply, as well as in the management of agricultural credit, increased their status in some countries (e.g. in Zambia), while they lost membership and support in others (e.g. Ethiopia). In the Czech Republic, on the other hand, most collectives transformed successfully into service cooperatives and the sector has remained strong, showing 92,000 employees at the end of 1997. In order to meet the challenges ahead they will have, nonetheless, to enhance their business skills, ensure they have access to the market information required and prepare to collaborate sufficiently well with other market participants. Indeed, these are the main points

COOPREFORM, COOPNET and INDISCO address in their efforts to assist countries to restructure their cooperative sectors.

A new development in the agricultural sector is the increasing vertical integration from primary producer to final consumer. In the United States the so-called New Generation Farmer Cooperatives (NGFC) have given farmers larger earnings by selling processed products instead of raw products. All business functions can be streamlined through production contracts, by the granting of delivery rights and delivery obligations. The vast amounts of money needed for constructing the production plants is attained through direct investments from the members. In order to control production the cooperatives have closed memberships. As the shares (delivery contracts) are tradeable on the market, there is strong member involvement and control. More than 50 new cooperatives have started during the past few years and there is good reason to term this process "coop fever". This NGFC model has had substantial impact on hitherto neglected rural areas. Re-migration is significant (4,000 residents in North Dakota alone), disposable incomes of farmers have risen (11 per cent in North Dakota between 1990 and 1994) and new employment is being created (3,500 jobs in North Dakota). The NGFC model has since spread from North Dakota and Minnesota to Wisconsin, California, South Dakota, Iowa and Canada.

Generally speaking, agricultural cooperatives have a strong advantage in matters of vertical and horizontal integration, as mentioned above, and in the supply of inputs, access to finance and marketing for smaller farmers and farmers in more remote areas. However, they face strong competition not only from investor-owned firms but also from the public services (university and farmers' extension services), particularly in the area of information on fertilizers, crop chemicals and pesticide use, animal waste disposal and storage, genetic technology and biotechnology, new seed varieties, livestock breeding methods and international market trends.

The worldwide membership of cooperatives in the agricultural sector increased by 100 per cent during the 1960-83 period. In the EU, agricultural cooperatives account for the largest single cooperative sector in terms of numbers of member cooperatives: 44,260 cooperatives or 42.6 per cent of all cooperatives are agricultural cooperatives, totalling 14 million members and about 720,000 employees. They are represented by COGECA. The annual turnover of its affiliated cooperatives was estimated at about US$150 billion in 1989. Taken together their market share of farm inputs was 55 per cent and that of outputs 60 per cent in 1993. In Japan, agricultural marketing cooperatives handle 95 per cent of rice, while in Finland cooperatives are responsible for 79 per cent of agricultural and 31 per cent of forestry production. Fourteen agricultural cooperatives in the United States have been included in the *Fortune 500* list of largest corporations.

Agricultural cooperatives have traditionally been the most important cooperatives in developing countries — and in countries in transition from centrally planned to market economies. In Kenya, for example, cooperatives handle 10 per cent of cotton, 87 per cent of pyrethrum and 52 per cent of coffee. In India, the Anand movement comprises 57,000 dairy cooperatives with 6 million members, while supply cooperatives deliver 43 per cent of fertilizers. In China about 700,000 (non-governmental) cooperatives assure supply and marketing for 83 per cent of all rural households, yet (according to an unofficial estimate) 40 per cent of them seem to be threatened by bankruptcy.

In the Eastern and Central European countries, 39.3 per cent of the population in the 15-60 years age group were still members of cooperatives by the end of 1994, thus suggesting that about 70 per cent of the total population still depended on the economy sustained by cooperatives at that time; the percentage was most likely far higher in rural areas. Since this period, many agricultural collectives of former communist countries have been transformed into investor-driven enterprises or changed from workers' cooperatives to service cooperatives (e.g. 65 per cent in the new federal Länder of Germany).

The general effects of liberalization, structural adjustment and globalization on these cooperatives have already been demonstrated. Apart from the suddenness with which they were exposed to competition with private and foreign suppliers (e.g. in Zimbabwe), agricultural cooperatives in developing countries and transition countries alike have also suffered severely from increased input prices, transport costs and unreliable access to credit. As a result some producers situated far from markets are being discouraged to produce — while in the case of others the only marketing agent remains a cooperative. Farmers and food processors have recently started to deal directly with each other, even allowing contracts for future crops (e.g. in Zimbabwe). The net effect of this varies from country to country. In some countries service cooperatives are involved in environmental conservation and in the field of renewable energy.

In the Russian Federation, it was decided to transform the agricultural sector by using a "shock therapy". The sudden privatization of land (between 2 and 15 ha per family) and agricultural inventory in 1991, coupled with the parallel introduction of free market mechanisms, was accompanied by a reorganization of all *Sowchos* (state farms) into shareholding companies and of the *Kolchos* (collective farms) into real productive cooperatives, where members had the right to leave and begin farming individually. The aim was to have as many private family farms as possible. However, few members had the confidence to go it alone and the Government has meanwhile had to adjust its policy towards the support of such restructured voluntary collectives.

Fisheries

Fishery cooperatives bring together all those working in the fishery sector, whether they are involved in the actual capture, processing and/or marketing; and they exist in nearly all countries of the world. They are active in both marine and freshwater fishing as well as aquaculture. In Canada, fishery cooperatives regrouped nearly 10,000 individuals in over 55 fishery cooperatives in 1992, accounting for 8 per cent of the national market in fishery products and turning over nearly 190 million Canadian dollars. In 1995, India had about 9,300 fishery cooperatives with a membership of 956,000 persons, while the 1,995 fishery cooperatives in Japan, representing about 350,000 individuals, were responsible for nearly 70 per cent of the total value of national fisheries' production in 1994.

Productive and workers' cooperatives

Productive and workers' cooperatives grew in membership by about 50 per cent from 1960 to 1986, when, according to the International Organization of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA), they grouped about 6 mil-

lion members. Traditionally, they have always been most numerous in the heavy industries and various service sectors. Today they have also discovered for themselves high-tech fields such as robotics and communication.

In Europe, there was a resurgence of productive and workers' cooperatives in the 1970s and 1980s and many of them joined together to form the European Committee of Workers' Cooperatives (CECOP) — which today represents 50,000 cooperative societies with 1 million workers. (The Social Cooperatives and Participative Enterprises is also a privileged platform for the "social economy" group of the European Parliament and has a good standing with the European Commission.) The roots and membership composition of these workers' cooperatives are diverse. Some are productive cooperatives of professionals who became disillusioned with the values embodied both by the existing market as well as the non-market economy and began to produce in agriculture or crafts (e.g. the print and organic food cooperatives in the United Kingdom). Others consist of small groups of intellectuals in need of jobs and aiming to provide intellectual and cultural services of a different kind (e.g. media, educational, training, arts and leisure cooperatives in Italy). While the earlier growth of the European workers' cooperative movement was boosted by the desire to establish an alternative economy, the increase in cooperatives during the past 15 years has been to a great extent driven by unemployment, economic restructuring and company buy-outs, which in turn inspired a trend towards innovation.

Local and regional authorities and support organizations, as well as a whole series of government initiatives and legal changes, enabled productive cooperatives to create employment (especially those for young people and disadvantaged population groups) in many European countries, particularly in France, Italy and the United Kingdom. In France the organizational form of a *groupement d'intérêt économique* was introduced in addition to the strictly legal cooperative form for small cooperative type organizations of, amongst others, craftsmen, retailers and transport drivers. It is estimated that the cooperative crafts sector in France contains 1,000 groupings and that 110,000 enterprises and 180,000 employees are members. Although it seems to account for only about 1 per cent of the national sales of crafts produced in France, it is allegedly growing significantly faster than the rest of the crafts sector.

In Italy the Government has favoured the creation of cooperative funds to finance the initial establishment period (up to three years) of new productive cooperatives of highly qualified and entrepreneurially-minded but unemployed members, who either take over businesses in difficulty or create completely new ventures. It is estimated that between 1975 and 1985 a total of 1,000 companies ranging in size from 30 to 100 employees were taken over by employees in a cooperative way in Italy; and in Spain, applying the same principles, at least 1,300 workers' limited companies, accounting for approximately 50,000 jobs, were formed during that same period. In the United States, where the same structural threat to employment exists, employee stock ownership plans (ESOPs) are more popular than workers' cooperatives. In 1990, 30 per cent of the population in the United States appeared to be employed in companies where they owned at least 15 per cent of the capital. But even here 1,000 productive cooperatives employed about 100,000 workers and 12 million salaried staff.

Productive and workers' cooperatives in the former centrally planned economies in Central and Eastern Europe, which were previously the predominant form of cooperative in these countries, have undergone — and are still undergoing — change. In their early days, membership was compulsory and leaders were appointed rather than

elected and ownership did not lie fully with the members. Various models of "privatization" have been — or are being — explored; indeed the first step in many countries has been to make voluntary the affiliation of primary cooperatives to organizations at secondary and tertiary levels. However, internal democratization, misconceptions about their role in a market economy and a bad reputation of cooperatives in general, as well as the problem of sorting out the ownership rights over collective property, have not made the process easy in many cases. These difficulties, coupled with the need to adjust to competition, has led to many disappearances.

In Poland, a new cooperative law was introduced as early as 1982, which brought about a new relationship between cooperatives and the State. This resulted in a situation close to cooperative autonomy and provoked a 100 per cent increase in the number of workers' cooperatives. In this country, cooperative property is still largely equated with state property. In the Czech Republic, on the other hand, members of agricultural collectives have been able to claim ownership of land and resume private farming since 1989. This has resulted in most agricultural collectives transforming into companies of shareholding members. On the other hand, the members of almost 90 per cent of industrial and artisan collectives, who also had been given the clear option to make restitution of private property rights over the means of production, refused to have their organizations divided up and preferred to remain cooperative enterprises.

Credit, savings and financial services

The cooperative financial sector has been the most dynamically growing cooperative sector in terms of turnover worldwide. It is estimated that the number of members of financial cooperatives increased by about 350 per cent from 1960 to 1986. Since 1972, worldwide credit union savings and loans have both grown at annual rates of 15 per cent, while assets have grown by 16 per cent annually. At the end of 1997, the World Council of Credit Unions (WOCCU) alone comprised 34,839 credit unions and 95,926,879 members in 28 African, 11 Asian, 3 Pacific, 13 Caribbean, 16 Central and South American and 5 North American and European countries, with more than 72.5 million members in North America alone. WOCCU also reports that, by the end of 1993, 100 per cent of the Dominican population were members of savings and credit associations affiliated to WOCCU, while the percentage was 44 per cent in Ireland, 36 per cent in the United States and 22 per cent in Canada (the Desjardins Movement, a cooperative people's bank which was started 80 years ago in Quebec to help the French Canadian community economically and socially has meanwhile become one of the world's largest single cooperative movements, reporting over 4 million members).

Cooperative savings and credit has nonetheless experienced various trends recently. While the "demutualization" of banking and insurance cooperatives is high on the agenda in the United Kingdom, Australia and New Zealand (mainly due to rationalization, cheap alternative credit, high returns for capital invested on stock exchanges and the economies of scale which can be achieved in this sector in industrialized countries), all French public savings banks with a total of 18 million customers transformed themselves into cooperatives in 1999, thereby offering future members the purchase of shares to the tune of about US$2.5 billion. Overall in Europe the banking sector remains the cooperative sector with the most members (while the agricultural sector has the most cooperatives). In late 1993 this totalled 28.7 million persons.

In several of the transition economies of Central and Eastern Europe, savings and credit unions have had an enormous upsurge since 1992. In December 1996 there were 224 of these unions in Poland, comprising 150,000 members and US$69 million in savings. Latvia's first savings and credit union started in early 1995 and had 1,400 members and US$245,000 by early 1997. The Romanian *Casele de Ajutor Reciproc*, a network of savings and credit union-type associations — some of which had continued their support to poor and middle-class Romanians right through the Communist era — had 4.8 million members in 1989 (more than 20 per cent of the total population) and owned 5,900 mutual assistance houses. In the course of restructuring in the early 1990s it lost about 900 houses and 1.8 million members; yet it is still able to provide its members with loans at a 15 per cent annual interest charge while the going rate is 130 per cent per annum. New credit union movements have also been set up in Belarus, China, the Czech Republic, Lithuania, the Russian Federation and Ukraine.

Among developing countries, the Republic of Korea takes first place in the development of saving and credit cooperatives. In 1998, membership was 5.2 million and cooperatives' assets amounted to US$1.7 billion. In India 43 per cent of agricultural credit comes from saving and credit cooperatives. In Latin America, some regional federations have very successfully taken on operational functions, permitting the transfer of capital between national savings and loan systems, thereby significantly increasing their banking clout.

In 1994, the United Kingdom still reported 6 million members (policyholders) of mutual insurance schemes of a cooperative nature which then made up for about 11 per cent of all cooperative members in the European Union. Since then, however, mutual insurers worldwide have taken somewhat of a beating. In 1996, the International Cooperative and Mutual Insurance Federation (ICMIF) reported a decline in mutual insurance business (among 56 members in 36 countries) of 14.3 per cent. Nonetheless, membership of the ICMIF has increased significantly in recent years and regional associations have sharpened their focus on services for which members have a demonstrable need.

Mutual guarantee societies

Mutual guarantee societies, supplying a joint guarantee to their craftsmen, trader or small businessmen members when trading with third parties, are less frequent. They exist in five European countries (Belgium, France, Germany, Italy and Spain) and in several French-speaking African countries. Their prospects for development, however, may be called good, particularly in Europe where the Spaniards have started an initiative within the EU to have them recognized and publicly promoted as appropriate institutions to support the creation of small and medium-sized enterprises.

Retailing and wholesaling

Although worldwide membership of cooperatives grew by approximately 50 per cent between 1960 and 1986 and the ICA announced in 1994 that 106 million members of consumer cooperatives were affiliated to it, developments in cooperative consumerism have been diverse. In the industrialized countries consumer cooperatives face tough competition prompted by the globalization of consumer markets and advanced technologies. To meet these challenges they tend to: merge at primary level in order to

form economically more viable regional cooperatives; replace small older shops by larger modern outlets; streamline distribution channels through integrating retail and wholesale functions; diversify their range of services (including tourism, repairs, and home maintenance); and concentrate on retailing by withdrawing from production. They also have to rely increasingly on external capital and strategic alliances with private companies. To further improve their standing in trade and market penetration, European, Israeli and Japanese consumer cooperatives started INTERCOOP in 1971, while in the Nordic countries they are represented by NAF.

The European Community of Consumer Cooperatives (EUROCOOP) has been in existence since 1957 and has done much since to help consumer cooperatives survive the tense competition — particularly in the market for consumer goods. Its member cooperatives amount to 2,556, serving about 21,367,000 members and 359,000 employees in all EU countries (plus Switzerland and Norway but not in Ireland), as well as several EFTA countries. Their collective turnover totalled about US$46 billion in 1992. However, the number of Italian consumer cooperatives dropped almost by half — from 645 in 1978 to 330 in 1993 — and several large European consumer cooperatives have gone out of business during the past 20 years (e.g. in Austria, Belgium, France and the Netherlands). Only recently one of the larger German consumer cooperatives (Kassel-Dortmund AG) went bankrupt (the latter due to risky financial speculations); elsewhere consumer cooperatives have increased their market share (e.g. Migros in Switzerland, consumer cooperatives in Greece, Spain and Italy).

In Japan, the consumer cooperatives group 14 million members, supply about 9 million households and achieved annual sales of 300 billion yen in 1996 — thus forming the largest national consumer organization. They emphasize the supply of healthy and environmentally safe and reliable goods and have adopted an organizational structure which places the so-called "Han groups" at the centre of attention. These five to ten-member strong subgroups, which originally jointly ordered products by mail and helped to promote communication inside consumer cooperatives, have meanwhile become important in many social activities. They monitor health matters, and inform themselves on and demand nutritional quality and environmental safety of products; they are also to be found in schools, universities and larger firms. Japanese consumer cooperatives usually maintain direct trade relations with fresh-produce producers, thus cutting out middlemen and markets and shortening the time between harvest and consumption. They also control production standards and assure quality for their own brands. Many medical and insurance cooperatives have also grown from within the Japanese consumer cooperatives.

Consumer cooperatives in the developing world have not developed anything like as extensively. Nevertheless, at the end of the 1980s, Argentina, Chile and Uruguay counted 685 consumer cooperatives with a total membership of about 2.3 million members. By way of contrast, parastatal consumer cooperatives formed the major backbone in the distribution of consumer goods in former communist countries in Central and Eastern Europe. Since transition began, they have largely been privatized, and only a small percentage have been restructured into private sector consumer cooperatives. In Poland, for example, the number of members dropped from about 3 million in 1988 to 573,000 in 1992. Yet, in absolute numbers this sector is still strong. In Estonia, 1,410 shops and 402 restaurants are today run by cooperatives, employing about 23,000 staff.

Retailer-owned wholesalers in the EU set up UGAL in 1963. A total of 175,000 independent retailers are today involved in the activities of UGAL, as well as 710,000 employees. Member organizations run 203,000 retail shops and their collective annual turnover amounts to about US$30 billion. In New Zealand a cooperatively-owned group of food retailers accounts for over 60 per cent of the nation's retail food trade.

Retailer cooperatives are under pressure from investor-driven wholesale organizations all over the world. While many a time they have had to sell, the Cooperative Wholesalers Society in the United Kingdom recently survived such a takeover bid successfully.

Housing

The number of housing cooperatives has grown by more than 500 per cent from 1960 to 1986. It finds its European level in the European Committee of Housing Cooperatives (CECODHA) with about 50,000 affiliated cooperatives and about 1,000,000 workers (1992). In most other European countries housing cooperatives are involved in the construction and renting of affordable accommodation, as well as in pooling building equipment for smaller construction companies. The largest provider of social housing might be the French *Société des habitations à loyers modérés* (HLM), which supplies large low-cost housing areas in most of the biggest towns in France. In countries in transition from centrally planned to market economies, housing was frequently provided by industrial or agricultural conglomerates. Positive examples of housing cooperatives taking over these functions today can be seen in Bulgaria, Estonia, Germany, Hungary and Poland.

In Egypt, the Cooperative Housing Foundation, co-financed by US-Aid and the Egyptian Government, ran what might be the largest housing project in any developing country: new houses were built for 100,000 people just north of Cairo and slum areas have been upgraded, providing homes for another 75,000 inhabitants. DESWOS, the German movement of non-profit housing associations, has major projects in cooperative home construction (including the use of alternative technologies such as bio gas) in many countries including Burundi, Chile, Ethiopia, India, Malawi, Mozambique, Nepal, Nicaragua, Somalia and the United Republic of Tanzania.

Public services

Services in the public interest, also termed "public services", usually include all provisions which aim at satisfying a population's basic needs and which as a rule are required regularly. Social services — often accounting for an important share of what are considered services in the public interest — cover such a wide field that they will be treated separately in the next chapter. What remains to be looked at in this context is the provision of electricity, water, gas, communication and transportation services. State provision of such services in developing countries and in countries in transition frequently shows a low level of service, poor quality, inefficient management, overly high costs and a limited geographical range. What is more, this sector is also characterized by an excessive degree of politicization and cumbersome and expensive bureaucracies which also make their privatization increasingly attractive in industrialized

countries as well. However, whenever such services have been contracted out to investor-driven companies, attempts to generate excessive profits have resulted in the price of the furnished service no longer corresponding to its respective quality. This scenario is facilitated where the State either cannot fulfil or wishes not to fulfil its supervisory obligation and tolerates consumer exploitation.

Cooperative provision of these services is not new. It has existed for a long time in Finland and Argentina, for example, where electrification cooperatives have operated since the 1920s. Nonetheless, the number of cooperatives has grown significantly in the last 20-30 years, particularly in North (electricity cooperatives) and Latin America. In these cases, the most widespread and best developed cooperatives are those in which consumers of one particular service have joined together in order to furnish the respective service which meets their individual needs. There are usually no specific legal provisions for such cooperatives and they therefore function as normal consumer cooperatives. Their uniqueness lies in the specific service they provide, which in contrast to other consumer services is subject to regulations set by public authorities. The activity of such cooperatives is thus carried out in accordance with the terms defined in the concession, licence or permit with regard to prices and conditions which are monitored by regulatory authorities. As a general rule, these types of cooperatives complement the service range of the State, which usually also provides cooperatives with inputs which they in turn distribute among consumers — i.e. electrical energy, drinking water, gas, telephone capacities, etc.

Individuals employed in certain sectors which provide particular services, especially persons involved in public transport, have grouped together in joint production, workers or productive cooperatives. Only those individuals actively involved in furnishing this service are members, and the service is provided according to conditions monitored by regulatory authorities. In contrast to user cooperatives, the origin of many of these — more recent — cooperatives is rooted in previously existent, usually heavily indebted, public service enterprises. Their transformation into a cooperative was frequently intended by the State to be a money-saving manoeuvre. The means of transport, repair facilities and the like were usually conveyed either free of charge or at favourable conditions. In numerous cases, these cooperatives began, in the course of time, to hire employees who were not inducted as members.

In a few cases, corporate or parastatal bodies at various levels (e.g. communities) joined hands in a cooperative in order to tackle certain tasks collectively, such as the construction of water purification systems; this is similar to the *régies coopératives* in Belgium. In other cases, services are furnished by multi-stakeholder cooperatives in which communities and consumer organizations collaborate.

As mentioned before, the United States rural electricity cooperatives operate more than half of the electrical lines, providing power to more than 25 million people in 46 states. In Argentina, electrification cooperatives already began work in the 1920s to balance the power of foreign monopolistic suppliers. Once they had consolidated their often precarious situation, they began to include the provision of water, the construction of telephone lines and the distribution of gas and other services into their portfolios. At present about 500 utility cooperatives of this kind exist and distribute about 19 per cent of the country's electricity, reaching about 1.2 million consumers in 900 communities, particularly in the rural areas. There are 130 cooperatives which have specialized in providing telephone services and 320 which only provide drinking water.

In Bolivia, cooperatively organized public service provision began in Santa Cruz de la Sierra in the 1960s, with the provision of electricity (today Bolivia has 83 electricity cooperatives); it has meanwhile extended to telephones (most cities in Bolivia have a cooperative telephone network, altogether 16 telephone cooperatives exist) and water (15 water cooperatives nationally). Although Brazil only began to develop electricity cooperatives in the late 1970s and early 1980s, it now has 202 such cooperatives which serve about 270,000 consumers. In Chile cooperative electrical utility started in 1945 and today serves about 25 per cent of the rural population. Cooperatives in this country also provide communities with drinking water, a project in which they were initially supported by the Inter-American Development Bank. In 1993, there were 137 cooperatives of this type in the country, serving 30,000 members. Cooperative water provision is equally high on the agenda in Colombia, together with cooperative recycling and 294 transport cooperatives. Honduras also has a number of transport cooperatives, both in personal transport (60 taxi and 20 bus cooperatives) as well as in the transport of merchandise (ten).

The economic and social advantages of such cooperatives lie mostly in their contribution to local employment creation, local economic development and decentralization. Furthermore, they provide consumers with a direct voice in the quality and delivery of such services and open up opportunities for the diversification of such services. They do, however, regularly either face problems with the economies of scale usually involved in the provision of such services and/or with the long-term capital needed to develop distribution networks. In the EU there have been few experiences with such cooperatives until the present.

Sustaining employment

As regards employment, cooperatives not only create new jobs but also protect productive jobs, which exist on account of their own dynamics and their economic success. The creation of productive jobs in production cooperatives, whether for individual members or salaried staff, continues to be considerable. In 1993, the International Organization of Industrial Artisanal and Service Producers' Cooperatives (CICOPA) estimated that there were around 100 million members in this type of cooperative throughout the world.

Indeed, people threatened by actual dismissal or unemployment resulting from company shutdown or relocation have created relatively secure productive jobs by creating their cooperatives in collaboration with their former management and/or with the support of local and national authorities.

On the employment front, market economy countries account for a large share of the 100 million salaried jobs which have been created worldwide thanks to cooperatives. In 1996, for instance, the German cooperative movement employed 502,700 people (compared to 487,300 in 1994). In 1998, the United Kingdom's cooperatives created 113,400 full-time jobs and 71,600 part-time jobs.

Trade union labour cooperatives were authorized in Japan in the 1970s because of the unemployment situation. In 1993, 107 companies of this type were in operation, employing 6,000 workers in such sectors of activity as gardening, maintenance, housing, distribution, catering and recycling. Their members are generally made up of the former unemployed, the handicapped or women and youth in search of their first jobs.

Italy already has a long-standing tradition of this type of cooperative, which still plays an important role in the handling sector.

Workers' cooperatives, which are also known as production cooperatives or workers' production cooperatives, have a special status in Western Europe and are gradually obtaining this recognition in the United States. A large number of small and medium-sized manufacturing companies are production cooperatives. In 1993, CICOPA estimated that 5 million people in Europe were members of this type of cooperative. In some regions, these cooperatives have successfully pursued their development in heavy industry and the services sector. The best known example is no doubt that of the Mondragon group of workers' cooperatives in the Basque country, which employed 22,800 cooperative workers in 1991. This group of cooperatives produces goods and services and is well adapted to the local and international market conditions in a region recently confronted with a serious economic recession and a high rate of unemployment.

The Mondragon cooperatives — which have operated in such differing industries as household electrical appliances and robotics for 35 years with an annual turnover of US$2.3 billion — are a spectacular example of the potential income-generation capacity of this type of cooperative.

In France, workers' production cooperatives (SCOP) often give young people the opportunity to create their own jobs with others who have similar or complementary qualifications, without having to mobilize too much initial capital. With a few tax and other incentives granted by the Government, they can thus engage in developing productive activities in such varying areas as the creation and exploitation of Internet websites, musical instruments' manufacture and repair, building or the design and creation of role plays.

In Italy, the Government has encouraged the establishment of a development financial cooperative which in turn invests in new workers' cooperatives. The members of these cooperatives must be highly qualified, recently unemployed and prepared to assume responsibility for an ailing company or to create a new company in the cooperative form. The Government's contribution in this case consists in paying average unemployment allowance to the persons concerned over a period of three years.

In 1994, ICA member cooperatives in transition countries (Community of Independent States (CIS) and Central and Eastern European countries) had 89 million members with membership in surviving parastatal "cooperatives" or recently created cooperatives. These cooperatives as a whole represented 39.3 per cent of the population aged 15 to 60 years. Assuming that a household in 1994 consisted on average of three persons, the population directly involved in cooperative life in these countries amounted to 226 million people — or 70 per cent of the total population.

In the developing world productive and workers' cooperatives have been particularly prevalent in China and India (25 million members, 25 per cent of national grain production, 65 per cent of sugar processing and 58 per cent of manual weaving); their presence has also been significant in various Latin American countries, where they provide rural areas with telephones and electricity. In most African and Asian countries, only very few could exist because they lacked government support; exceptions were the United Republic of Tanzania (171 in 1991) and Zimbabwe (124 in 1991). These cooperatives succeeded in creating a few hundred jobs but did not prove to be sustainable in the long run — and it is highly likely that many have since fallen victims to structural adjustment. In Indonesia and Sri Lanka, a small number of workers' coop-

eratives sprung up as a result of demographic and economic circumstances; but they too have not been significant in terms of employment creation.

The various forms of production cooperatives and their very diversified sectors of activities offer a real potential for development and geographical distribution; indeed, they can make a specific contribution to the economic development of the sectors they cover and create or preserve jobs in these sectors.

In European market economy countries production cooperatives are expected, in the wake of liberal legislation, to develop their activities at the community and international levels while respecting their specificities and cooperative principles. This trend is also expected to emerge and develop in other regions.

In developing countries, for instance, there is an increasing need to create jobs and income for a growing number of rural workers who cannot be absorbed by the agricultural sector and workers confined to the informal urban sector. Those bearing the brunt of the implementation of structural adjustment policies — mainly the poorest members of the most vulnerable groups — are also affected by the loss of their jobs or cuts in their income. Similar problems and needs are also found in the CIS countries, where unemployment rose from 100,000 to over 4 million between early 1990 and March 1992.

The challenge facing cooperatives and the government in this situation is fourfold. First, cooperatives will have to create self-generating jobs through their membership or salaried jobs through the development of their economic activities. Second, some countries will need to revise their development policies and the status of cooperatives. Third, there is need to strengthen the position and role of cooperatives in privatization programmes; and fourth, nascent cooperatives need to be given the technical assistance required to create jobs.

2.2.3. Cooperatives and economic and social development

In developing and transition countries, it is often hoped that cooperatives can help alleviate poverty and mitigate — at least in the short term — the hardship that is likely or has already been created in the wake of transition from centrally planned to market economies and structural adjustment. Their role is perceived as helping replace the functions of state credit institutions, corporations and boards in such critical areas as access to credit, procurement, storage, distribution of inputs and marketing of agricultural produce. They are also expected to generate employment opportunities, particularly in rural areas, and to provide an effective base for various disadvantaged groups so that they might organize themselves for social and economic benefit. For many countries these are arguments for the continuation of state promotion and support albeit on a lesser scale.

In industrialized countries, cooperatives often attract public support because they either serve to reintegrate marginalized groups (such as people who cannot afford housing costs prevalent in the normal market, long-term unemployed or unemployed youth), provide services previously offered by the State (particularly in health care and care for elderly people) or contribute actively to environmental conservation (cooperatives developing and producing new forms of energy generation and supply, cooperatives active in waste management and recycling, soft tourism, etc.). Frequently their attraction to members lies in the fact that they offer better working conditions or a service which is superior in quality to alternative providers.

Nonetheless, however tacit or indirect it might be, any state promotion of cooperatives among marginalized or impoverished population groups obviously implies a redistribution policy. Despite this, some well-known economists and policy planners insist that promoting cooperatives in this way can: alleviate poverty and contribute towards the liberalization of (rural) economic systems — provided that it uses instruments and chooses promotional levels which grant cooperatives autonomy; counter a "handout" mentality; and preserve or even enhance the comparative development advantages of cooperatives over private companies and bureaucracies.

These three provisos must be safeguarded if cooperatives are to be dynamic and flexible in terms of adjusting to changing environmental conditions. In view of the fact that organizing activities, new processes and new products all require an innovative approach, it could be argued that in addition to their comparative development advantage, cooperatives have considerable innovative potential, thus justifying their promotion.

In developing countries — but also in transition countries — individual entrepreneurs usually have to overcome major obstacles to be innovative: unfavourable regimes of social obligations and property rights, which might not permit them to "do things differently", tend to diminish what initial motivation and acceptance of risk they might have once had; relatively low or inappropriate competency and skill levels hinder their performance and imperfect markets prevent them from achieving a just reward for their efforts. In the industrialized countries individual innovative entrepreneurship today is hampered by extensive social security systems which not only teach people that to take risks is less than clever — even unnecessary; entrepreneurs also have to cope with financial difficulties because fewer working people pay in while pay-outs have increased dramatically with structural unemployment, higher life expectancy and increases in treatment costs for long-term patients. To be self-employed, however, means either to forego benefits or to assure against such risks with private — and usually more expensive — insurance schemes.

Cooperatives can help overcome all these obstacles to innovation. The most important assistance they can provide is to set up secondary and tertiary bodies which represent the interests of their member entrepreneurs and workers with policy-makers, thus lobbying for better legal and market conditions for small and medium-sized enterprises. They can further pool resources and use their local information advantage in order to provide members with the initial capital needed. They can be back-stopping agents for the entrepreneurs in helping them to access information on markets and prices (products and inputs), technologies and optimal factor combinations. They can create employment in areas where the State, on account of cutting expenditure, either no longer retains employees or scales down its services. And, also very important, they can shelter the individual from too much social pressure within the village or town, by taking on part of the risk of innovation themselves, thereby demonstrating solidarity. In fact, cooperatives are already part of all these processes.

Cooperatives also play an intermediary role between the forces of liberalization, globalization and technological progress and increasing marginalization and cuts in social security. Their international networks help to balance worldwide supply and demand (particularly of consumer and producer cooperatives), serve as a counterweight to vast international conglomerates and also help reduce national disparities between the economies of developing countries and countries in transition, on the one hand, and industrialized countries on the other. Even if their contribution is still weak,

consumer trends (demands for guaranteed quality standards for produce, consumer interest in environmentally friendly and fairly traded products) suggest that it could become much stronger.

This globalization of cooperative trade and information finds its real advantage at the local level. Income creation through employment and self-employment opportunities even in remote areas; improved working conditions, socially and environmentally aware ways of production; dissemination of technological progress through innovation, training and education; as well as the integration of disadvantaged or marginalized groups (whose numbers are likely to increase further as globalization, liberalization and structural adjustments proceed) — all these factors point to the basic differences cooperative business provides. User-members will increasingly be prepared to uphold these opportunities even if that might mean foregoing some interest on capital invested. Cooperatives which are truly driven by their members' interests and still achieve the management capacities necessary will be in an excellent position to take on all those areas of business which larger companies cannot tackle because of high transaction costs and/or lack of appreciation for the market.

2.3. Social services

2.3.1. Overview

Cooperatives have always played an important role in alleviating and solving pressing social problems. They have always — and still do — helped to improve the living and working conditions of farmers and factory workers (notably agricultural, productive and workers' cooperatives) and provided them with banking services; they have made production and consumption credit available to small producers and agriculturists (saving and credit cooperatives), offered production, health, funeral and life insurance (indigenous cooperatives, agricultural and crafts supply and marketing as well as insurance cooperatives) and protected consumers from adulteration of food products (consumer cooperatives). Apart from this, cooperatives today have become engaged in a whole range of additional social functions, i.e. in care for the aged, children and handicapped, in the creation of employment for socially disadvantaged population groups, in the introduction of new technologies, recycling (for example, recycling cooperatives in Australia), the use of renewable energies and protection of the environment.

Cooperatives provide these services in developing, industrialized and countries in transition alike; and it goes without saying that not only the problems themselves but also the cooperative legislation vary in these different countries. The approaches cooperatives take to cope with problems also differ. Some cooperatives exist entirely to provide social services, in other cases such services are provided as part of a more comprehensive range of services (e.g. in insurance and consumer cooperatives) or as a sideline — to economic services (e.g. in agricultural cooperatives). There are also cooperatives organized by service providers as well as cooperatives of patients, clients, customers — in other words cooperatives for those who need the particular service. Recently, the number of cooperatives with both provider and user members has increased, particularly in several European countries, where special legislation to accommodate such heterogeneous interest groups has been developed; in some countries, the State has actively encouraged such models (e.g. in Italy). At times even exter-

nal financiers become members of such cooperatives, which are frequently called multi-stakeholder organizations.

Generally speaking, new cooperatives tend increasingly to come into being when security systems created either by the State (mainly in industrialized countries, particularly in Europe), by parastatal cooperatives (mainly in countries in transition) or by the family or larger communities (particularly but not exclusively in developing countries), can no longer be maintained or leave significant gaps in the provision of services deemed necessary. They often make it much easier for women who tend to shoulder the major burden in delivering social services to the family, and create employment for people who otherwise would not easily find any. Cooperatives which have been started for such undertakings frequently work in partnership or network structures with other cooperatives, their federations, public development schemes, employers, unions, welfare associations, churches and local administrations.

Existing cooperatives which have integrated functions in these areas usually rely more on their own economic potential but can — and do — also maintain external links for this purpose. In many instances they have reacted to situations in which the State has either withdrawn from service provision or contracted out such services. Many important social needs would remain unmet if it was not for the inclusion of social rather than merely economic aims which characterize most cooperatives and the unique combination of knowledge they possess on local problems; furthermore, they have the local potential to solve these problems. Aware of this, the signatory Heads of State and Government at the World Summit for Social Development (Copenhagen, March 1995) signed a Declaration and Programme of Action which unambiguously stressed the important role of cooperatives in social development and committed themselves to "utilize and develop fully the potential and contribution of cooperatives for the attainment of social development goals".

2.3.2. Trends in cooperative provision of social services

Cooperative insurance

Cooperatives and mutual societies active in the insurance field could, and indeed do, offer a wide range of insurance products (health, accident, disability insurance, etc.) at a cost and of a quality other providers cannot attain. Nineteen of the 72 insurance cooperatives belonging to the International Cooperative and Mutual Insurance Federation (ICMIF) offer health insurances. They operate in 16 countries: Belgium, Canada, Colombia, Denmark, Ecuador, France, Germany, Italy, Japan, Republic of Korea, Malaysia, Peru, Singapore, Spain, the United Kingdom and the United States, including separately in Puerto Rico. The 6,000 French mutual health insurance societies probably have the highest coverage: in 1990, they were estimated to have insured about 27 million people. Federated in the "*Fédération nationale de la mutualité française*", they cover about 60 per cent of the French market for non-compulsory insurance and employ about 20,000 members of staff. They are closely followed in size by cooperative insurance schemes in Japan, where public and private employers have set up a joint purchasing cooperative for insurance cover for their 10 million employees.

Numerous insurance cooperatives have lately added the provision of social and health services to their product range. From being simple mutual insurance funds many

now offer group health insurance schemes to employers responsible for coverage of their employees, increasingly make agreements with service providers, diversify their services by means of alliances with other facilities or even set up their own facilities. Particularly in the latter two ways they can achieve significant cost savings due to information advantages, particularly when cooperating with cooperatives active in the prevention of ill health and accidents and/or cooperatives supplying health care or services to the disabled.

Cooperative provision of (preventive) health care and medicines

In mid-1995, 39 million members obtained services from user-owned cooperative health care services worldwide. These services are assumed to have begun first in Japan early this century. As early as 1964, nearly 6,000 Japanese agricultural cooperatives had, with public subsidies, formed so-called welfare associations, providing 137 hospitals, 80 clinics and more than 1,000 doctors. In Japan, poorer members did not have access to private health care provision, because there was no public system of social insurance. A public health insurance system was introduced in 1961, but instead of putting cooperatives out of business or limiting their services to what the State would recompense them for, they adapted and concentrated on preventive and educational measures as well as the care of chronically ill and geriatric patients. In the meantime Japanese agricultural cooperatives have enlarged their services to arrive at 38,000 beds, 3,200 doctors and almost 19,000 nurses, while consumer cooperatives have also become engaged in the provision of (preventive) health care services (125 health cooperatives offered 13,000 beds in 80 hospitals and 246 clinics in 1998 and employed 1,600 doctors, 9,000 nurses and 9,400 other staff).

Most of the members of Japanese health cooperatives are healthy but elderly patients. They emphasize the maintenance of health, information on and participation in the choice of treatment and members' involvement in the cooperative administration in collaboration with the medical care specialists. The Han groups, which form an essential part of the success of prevention through greater self examination (including blood and urine checks, etc.), monitoring of each others eating habits, understanding of health problems, and satisfaction with the health services provided, have already been mentioned earlier. Thus cooperatives are empowering consumers/patients to look after their own health.

In Europe (e.g. in Spain and Sweden) and America (notably in Canada, Panama and the United States), health care cooperatives or the provision of health care services by existing (housing, consumer or insurance) cooperatives are also usually a consumer response to the cost explosion in or decay of public health systems and a lack of provision of urgently needed preventive and ambulant care services notably for the elderly and outpatients (e.g. the endeavours started by HSB, Riksforbund or Folksam in Sweden). In Canada, 37 health cooperatives and nine cooperative clinics already cover 228,000 people and in the United States user-owned health cooperatives reach an estimated 1 million households. In Spain primary health care cooperatives exist as user-owned health care facilities (family health care cooperatives) which accept both doctors and patients as members and as medical providers' cooperatives. They have merged at secondary level for political representation and common service provision, which meanwhile includes insurance, computer services and the Espriu research and promotion foundation. The largest of the Spanish providers' cooperatives is "Lavinia".

a country wide operation encompassing 22,000 doctors and servicing approximately 1 million people. Autogestió Sanitaria in Barcelona has 4,027 member doctors, providing health care to 200,000 patients, who are members of users' cooperatives.

In some European countries, however, multi-stakeholder organizations have become very important. In Italy social cooperative societies were provided for under a 1991 Act. In this particular case, the beneficiaries do not merely consist of the members but include certain disadvantaged groups or even the community at large. Financing institutions and individual volunteers can also obtain membership. The services are provided both by professionals and volunteers and one strong aspect of their social orientation lies in the integration of disadvantaged people into the labour market. In the United Kingdom, the Community Care Act of 1988 introduced a new appreciation of small, community-oriented service providers on the part of public authorities. From that time onwards cooperatives have been increasingly contracted to provide care for children and disabled people. In these areas they have developed partnerships with volunteer organizations.

In some former communist countries, consumer-owned cooperative organizations have retained a specialist health service department, often referred to as a "medical cooperative". In developing countries the traditional approach to medical services usually entailed the State first establishing a clinic, offering treatment to all and then introducing inoculation campaigns, preventive measures such as the education of expecting and breast-feeding mothers, community gardening and nutritional advice. Anti-malaria measures, such as the draining of stagnant pools, the construction of latrines, waste disposal and safeguarding of water supplies against contamination, were also often initiated by these publicly financed clinics. With high debts, tight public budgets and less development aid, the latter functions have frequently fallen away or are being picked up by consumer or provider cooperatives. User-owned health cooperatives also exist in Bolivia, Brazil, India, Philippines, Senegal, Singapore, South Africa, Sri Lanka, Sweden and the United Republic of Tanzania. The number of health care cooperatives in all of Asia is currently estimated at about 465.

The largest secondary cooperative of providers of health care services is UNIMED of Brazil. In the mid-1960s, doctors had difficulty finding employment due to the neglect of public medical infrastructure. This prompted them, in 1967, to group together in medical service cooperatives to better their employment opportunities, limit fixed costs as well as to safeguard the general interests of health professionals. In this they were also helped by a concurrent enlargement of the public social insurance system towards coverage of the entire population, which allowed them to attract 5 per cent public wage subsidies in order to cover the difference between provision costs and insurance pay-outs. In the meantime 73,000 doctors (which is about one-third of all Brazilian medical practitioners) have become members of UNIMED. The associated 300 primary cooperatives are composed of group consulting rooms or networks of individually practising doctors. The cooperative system also comprises several hospitals, laboratories and X-ray facilities and supplies about 9 million people. A sister cooperative, USIMED, was started to provide additional health insurance cover; and lately provider-owned cooperatives have also encouraged the establishment of consumer-owned cooperatives, associated with it through individual and enterprise contracts.

The Brazilian system has served as a model for Chile, Colombia, Costa Rica and Paraguay. Other provider-owned health cooperatives exist in Argentina, Benin,

Bolivia, Germany, Italy, Malaysia, Mongolia, Philippines, Poland, Portugal, Spain, Sweden, the United Kingdom and the United States. In mid-1995, all in all about 13 million people had contracts with them, but most also serve other members of the public.

Worker cooperatives active in the health sector primarily exist in the United States and Canada. In Wisconsin, for example, the Rural Wisconsin Health Cooperative is owned by 20 rural hospitals and one urban university hospital and provides them with operational support, like bulk purchases and common services. In Quebec a *coopérative du service régional d'approvisionnement* (CSRA) is owned by 60 clinics and hospitals and five ambulance cooperatives provide 13 per cent of emergency services. Labour contracting cooperatives provide building maintenance, catering, cleaning, security and other services to health facilities, or act as employment agencies for their members.

Pharmacy services (at primary level) are provided by many health cooperatives — as well as by general retail cooperatives or other cooperatives — for their members. Specialized consumer-owned pharmaceutical retail cooperatives, geared exclusively to making medicines available at a lower cost, are also called "social pharmacies". They largely exist in Belgium and France, Italy, the Netherlands and the United Kingdom, where they are covered by special legislation. These cooperatives, together with Swiss pharmacy cooperatives, joined together in 1961 to form the European Union of Social Pharmacies serving 2,556 individual cooperatives, 21,367,000 members, about 55,000 pharmacies and 358,974 employees; in 1992, the Union held about 10 per cent of the European market for pharmaceutical retail and achieved a turnover of about US$48 billion. In Belgium this type of cooperative serves 20 per cent of the population and the EU is currently hoping that Poland and the Czech Republic establish similar movements. For some time now, there have been pharmacy cooperatives in a number of African countries (e.g. 150 in Ghana alone).

Secondary pharmacy cooperatives have been started by the providers, the pharmacists, in order to obtain medicines and medical equipment. They undertake bulk purchasing as well as common service and marketing functions and are widely developed in the United States: for example, in 1994 the Independent Pharmacy Cooperatives in Wisconsin had 400 members. Furthermore, in 1993, four such cooperatives were among the ten largest cooperatives in Portugal.

A common feature of all cooperatives active in the health sector is their concern for prevention and the promotion of healthy lifestyles. The connection between social and physical well-being being so immediate, many health cooperatives, as an extension to their work, also provide social care services — particularly to persons with disabilities, special risks (e.g. people with psychosomatic symptoms, diabetes, chronic heart or circulatory problems) or at risk of self-injury through substance abuse — and community outreach programmes directed at adolescents, single mothers and elderly people.

Cooperatives and social housing

Housing and community development cooperatives the world over have increasingly become aware of and are trying to meet the challenge of accommodating the special needs of elderly people: above all their higher need for security and additional services (shopping, cleaning services, prepared meals, reading services, etc.). Some have tried to provide adequate housing for single-person households, disabled people,

immigrants or homeless people and/or to integrate social welfare recipients into estates which predominantly house working family households. Yet others concentrate on providing essential utilities such as waste disposal, water and sanitation (utility cooperatives and workers' cooperatives, notably in developing countries).

In France, the *Mouvement des Cités Coopératives* has, for a long time, proven that a social housing policy, the provision of quality housing, cooperative participation and a service-oriented economy do fit together well. In the United Kingdom it was the Conservative government which forced local authorities to contract out public housing management, ancillary functions such as catering and cleaning in the education and health service, as well as 85 per cent of social services. In many cases cooperatives took over housing and nursing homes previously owned by the local authority. Care cooperatives came into being for the mentally ill, for residential care for the elderly and for home care services. A whole variety of new types of cooperatives emerged, with a mix of worker and user control — and the process continues.

Housing cooperatives in Austria, Germany and Sweden show a remarkable sensitivity to appropriate construction for the special needs of elderly and handicapped people as well as families with several children. In these countries, as well as in Denmark, Norway and Finland, they have frequently extended their services to include home care and in-house financial, medical, dental and other social care services (such as hairdressing, library services, etc.) for which they attract non-resident professionals. In Poland the cooperative housing sector has largely survived transition unscathed, still constructing about 75 per cent of all new apartments. Canadian housing cooperatives have responded particularly effectively to the state withdrawal from social services.

Cooperative provision of social care services

Many health cooperatives (both of providers and customers), many housing cooperatives and various consumer cooperatives provide social care services as an extension of their preventive and rehabilitative programmes. In Japan, both the agricultural and the consumer cooperatives provide care for the elderly. Courses on health promotion, social security, cooperative administration and voluntary activities are organized to train leading members. Over 30,000 care helpers have already been trained and 30 agricultural cooperatives have signed partnership agreements with local social care authorities. At the same time they employ visiting nurses, run visiting nurse and volunteer centres, offer meals and baths on wheels, home care support and maintain several health/social care houses. Some consumer cooperatives have launched commercial operations to cater for the ageing population, e.g. in repackaging and home deliveries of daily necessities and/or meals. There are now 30 cooperatives nationwide supplying goods for aged consumers, achieving an annual turnover of about 100 million yen.

But there are also numerous autonomous social care cooperatives in the same and other countries. In Sweden, for example, cooperatives have rapidly become one of the most important alternatives to the public provision of social services in the transformation of the welfare state and privatization of the public sector. More than 66 per cent of private day-care centres are cooperative. This is particularly the case for children's day-care centres. Parents in Sweden have a right to subsidized day care, much of which has been provided by local authorities. However, the use of service vouchers is growing and citizens now seem to prefer cooperative services in many instances. Between 1988 and 1992, both the number of children attending day-care centres and the number

of private day-care centres tripled (the earlier from 8,500 to 30,000, the latter to over 1,500). Nearly two-thirds of these are parental or worker cooperatives; in other words, much of the "privatization" is really "cooperatization". As we already mentioned, a similarly important growth sector for Swedish housing and insurance cooperatives lies in the provision of home care and professional services to the elderly. In Finland, the growth of cooperative children's day care, health care and social services to the elderly is similarly impressive. Canada is certainly another country where cooperative social care is growing quickly. There are about 800 child-care cooperatives, providing nursery and pre-school education. In the United States it is estimated that over 50,000 families send their children to cooperative day-care centres, while cooperative day-care centres in Malaysia are promoted by teachers and staff. Even in Myanmar, day-care centres for both children and elderly citizens are being established.

In France, parents of children with mental disabilities have set up social care cooperatives to provide services. Romania, like other European countries, has specialized in social care cooperatives providing sheltered workplaces for the disabled. In Japan there are several new workers' cooperatives creating employment for elderly people in such areas as gardening, cleaning and house repairs. In any case, most worker-owned production and service cooperatives also make provision for the extension of membership to the unemployed, the disabled and immigrants. Other social activities in which cooperatives have become involved range from food security and environmental protection to peace campaigns.

All in all, as in the health cooperative sector, it is Italy which leads the statistics with about 2,000 health and social care cooperatives, called "social cooperatives". Employing about 40,000 people, they are nearly all workers' cooperatives, but they also have innovative ways of involving clients. It is estimated that Italian cooperatives attract about 1.3 per cent of the total public budget for social welfare. The contrast with other countries might be more apparent than real, however, because in Italy non-profit organizations in this sector are encouraged to register as cooperatives while in the United Kingdom, for example, many non-profit organizations active in social care services work according to cooperative principles but are registered as charities. Whether either work more or less philanthropically is a matter of personal judgement.

Cooperative activities in schooling and university education

It might have been thought that school or university cooperatives are no longer so important in relatively wealthy countries with advanced systems of public education or that they limit themselves to typical cooperative issues. Developments in the United States and Asia teach us differently and might well serve as models for developing countries and countries in transition alike. Cooperative training is also gaining new impetus in the field of vocational training and in preparing young people for their entry into the labour market — especially for a career in self-employment and entrepreneurial cooperation.

From the times of the Rochdale Pioneers onwards, cooperatives have been encouraged to set aside surplus earned for the education of members and their children. In the beginning of the cooperative movement in Europe this entailed basic writing and arithmetic skills as much as the administration of cooperatives (e.g. accounting and inventory skills). Although cooperative subjects were later commonly included in school and university curricula in Eastern and Central European countries, the state education

system in Western Europe did not take much notice of cooperative training needs until recently. While in Eastern Europe the cooperative movement recruited its staff directly from various levels of state educational institutions and then topped up their training either with specific cooperative courses financed by the central cooperative apex organizations (predominant form of cooperative specialization in the smaller countries like Hungary, etc.) or even created their own cooperative universities or technical colleges (notably in Bulgaria, Poland, the former USSR), only special (often movement-owned) cooperative colleges and a limited number of university faculties trained, until fairly recently, cooperative managers and medium or higher level members' representatives in Western Europe. Yet, there have traditionally been attempts by the cooperative movement to broaden the base of membership by inviting young people to become involved in their own cooperative-type organizations at an early age.

The first youth cooperatives in the United Kingdom were: the Woodcraft Folk, established in 1940; the cooperative play ways (for children aged 7-10 years); the cooperative pathfinder (11-14 years) and the cooperative youth clubs (15-20 years) — all these formed in 1941 and were supported by the British Cooperative Union. These cooperative groups for young members functioned as community-based cooperatives and were neither school- nor campus-oriented.

It seems likely that the first autonomous pre-Second World War school cooperatives existed in India and Sri Lanka; elsewhere similar movements only began later and had to confront a wide variety of economic, legal, social and educational circumstances. Accordingly they developed diverse organizational forms and activities and maintained links with national and international cooperative movements; however, with the exception of Japan, they did not become part of these movements.

In a few regions in the developing countries economically successful cooperatives have for a long time spent their money on building schools and engaging teachers — both for children and illiterate adults. In many countries cooperative saving and credit cooperatives today run special schemes to enable parents to cover the cost of schooling and/or allow schoolchildren to become members so that they learn early how to save for any additional education they might want later (e.g. in South Africa). New models of school and university cooperatives might develop as the State is no longer adequately staffing and equipping schools — if indeed it ever has — or can no longer afford to make even basic schooling available free of charge.

These days there is a new drive to promote cooperation and cooperative education in European schools. Under the auspices of an ICA-sponsored transnational project to further the diffusion of cooperative values and principles in schools it was found that cooperative projects, cooperative methods and cooperative issues already formed part of ordinary school curricula in certain schools at least in Belgium, France, Hungary, Italy, Portugal, Romania, Slovakia, Spain, Sweden, Turkey, and the United Kingdom. Cooperative organizations such as consumer (parent), worker (teacher) and mixed cooperatives (parents plus teachers), as well as those promoted by students as a practical exercise and/or for specific purposes (e.g. human solidarity), may be found in Italy, Spain, Sweden and Turkey. In Italy 60 per cent of the various mixed and user-school-cooperatives are to be found in urban areas of the north, with the Trento region being in the lead. Two hundred and sixteen school cooperatives, covering more than 400 schools and 45,000 members, are associated with Confcooperative, the National Cooperative Association which also has a specific school sector organized with the Culture, Tourism and Sport Federation. In addition there are other cooperatives that have not yet

joined the Association. In Spain there are almost 800 school cooperatives, comprising nearly 25,000 pupils and more than 10,000 teachers, which are frequently teachers' or multi-stakeholder cooperatives. They have been created in response to the deterioration in state schools due to economic bottlenecks and are organized at regional and national levels into sectoral federations. These cooperatives are recognized by the State. In Sweden more than 100 cooperative groups now manage schools which were previously state schools and threatened with closure, particularly in small towns. Legislatively recognized they are frequently parent-teachers cooperatives.

Schoolwork-transition cooperatives (training school-leavers in advance for the working and cooperative environment) are prevalent in France, Hungary, Italy, Portugal, Romania, Slovakia, Spain, Sweden and the United Kingdom. In Hungary, for example, about 80 technical high schools and vocational training institutes are organized cooperatively — with a total of 15,000 students and 900 teachers. Although the United Kingdom does not appear yet to have any school or university cooperatives of the worker or user kind, "teen cooperatives" have become important extra-curricular exercises in enterprise education. In Italy, CENSCOOP of Rome devised a large-scale competition project of entrepreneurial training in schools, inside and outside of the cooperative movement. Participants must prepare a project for a new cooperative enterprise in the business, cultural or social field and can obtain advice from the Trento Foundation which also offers training opportunities and teaching aids to the teachers involved. This competition went into its fifth edition in 1995, reaching 20 classes and a total of 400 pupils. Summer work experience in cooperative institutions is also offered to high school students and in Venice, a vocational training institute prepares programmes of entrepreneurial training and specific feasibility studies for new cooperative ventures. In Romania the handicrafts cooperatives provide young entrepreneurs with vocational training and 12 training centres cater for 15,000 people learning 65 crafts and specialities. Finally, the Slovak Union of Producer Cooperatives has founded several vocational training colleges and centres of professional tuition for secondary school students.

University cooperatives date back much further than school cooperatives. The first seems to have been founded at Harvard University in 1882 by graduate students pooling their resources for the purchase of textbooks and other necessities. Since then the idea spread across the United States and Canada. In addition to these cooperatives, also known as bookstore cooperatives, there are different types of students' cooperatives set up to serve different consumption, purchasing, communication, vocational guidance, housing, financial or repair and maintenance needs. Community-based cooperatives also provide training in cooperative entrepreneurship to students nearing graduation and there is strong community involvement in cooperative education in the school system in Canada. The Cooperators' Group, an insurance cooperative, has a wider youth development programme. Other countries in the Americas do not seem to have established students' cooperative movements.

The first Asian university cooperatives were established in the last decade of the nineteenth century. These cooperatives are also in different stages of development, with Viet Nam being the last country engaging in the establishment of university cooperatives. The best developed movement of students' cooperatives exists in Japan. First begun in 1946, they were never supported by the State and adopted a strategy of answering to the most pressing problems with which students — but also society at large — were concerned. Today they cover a wide range of activities such as credit,

travel, vocational guidance, language training, insurance, trade in consumer goods, culture, leisure, psychological counselling and awareness programmes on such topics as peace and the environment. For better vertical and horizontal integration they established the National Federation of University Cooperative Associations (NFUCA) in 1955. In 1996, this Federation had a membership of 192 primary college cooperatives, nine business associations and two inter-college cooperatives and served 1.24 million individual members. The movement is aspiring to integrate with the wider cooperative national and international movement and has an impressive agenda of social and economic interaction; it also provides assistance to other emerging university cooperative movements in Asia.

India has a long history of students' cooperatives. A recent study carried out by the University Sub-Committee of the ICA:ROAP reported that there were 12,000 such cooperatives in India; however, there is no national student cooperative federation and integration of their consumer and credit activities is weak. It is the college authorities who support the cooperatives with buildings and equipment. In contrast, the first Indonesian student cooperative, although only set up in 1976, has grown into a large business with 138 employees. It offers credit, books, souvenirs, telecommunication services and computer training and maintains a youth hostel and a boarding house. In addition to this first student cooperative, there are a further 132 Indonesian university cooperatives affiliated to the Indonesian Youth Cooperative Federation (KOPINDO, established in 1981), as well as 68 youth cooperatives, 60 scout cooperatives, and 38,033 school cooperatives. The Indonesian university cooperative movement closely follows the Japanese model and has reached considerable strength in retailing, the travel business and other industries. It provides elaborate training programmes for members on entrepreneurship, management and cooperative theory and practices.

The Republic of Korea first established a widespread system of youth groups in 1947. They are declining in number (33,140 in 1981) but the number of college and university cooperatives has been increasing since the late 1980s. Supported by the consumer cooperative movement, seven university cooperatives currently run book and convenience stores as well as travel and other services and their turnover has almost doubled from 1993 to 1996. The Korean University Coop Network engages in common purchasing, joint production and environmental activities. Some 17 consumer and 18 credit cooperatives have developed on university campuses in Thailand since the late 1950s, most of which incorporate members from the faculty and staff as well as students. The Thai Cooperative Federation in Education (TCFE) has meanwhile implemented successful joint purchase and production activities.

The story is not the same in a number of other Asian countries, where there has been less growth in students' cooperatives. Singapore is limited by the fact that it is a relatively small country; Malaysia, probably due to a lack of both public support and/or a national federation, currently only has eight university cooperatives with a total membership of about 10,000 individuals; and the university cooperative movement is also still weak in the Philippines, where cooperative members by law have to be above the age of 21 years.

Social tourism cooperatives

Social tourism cooperatives first developed in France and constitute a strong movement, both in this country and in Belgium; furthermore, they are governed by

special legislation in both these countries and in Italy, and are also to be found in Denmark, Germany, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom. In Europe CETOS (European Council for Social Tourism, founded in 1986) can make available about 3,300,000 beds for tourism and accounts for an annual turnover of about US$7.2 billion. Its members, however, apart from consumer cooperatives, also constitute associations promoting family values, youth organizations, tourism departments of consumer cooperatives and consumers' organizations, service providers or a mixture of both. Although these organizations work along cooperative lines, they have not legally registered as a cooperative society.

In Belgium there is a special financing agency for social tourism, the *Caisse Nationale des Vacances Annuelles*. Its reasons for promoting social tourism are many: it provides assistance to families, youth, handicapped and the elderly; it brings development to remote and economically weak areas; it generates income for farmers to support their earnings; and it creates employment by encouraging environmental protection and the preservation of local crafts and tourist attractions. Users are usually interested in a fair price, while local entrepreneurs, official bodies and the construction industry promote social tourism as a means to create employment, generate taxable income, attract demand and investment into their area and advertise and sell beyond their previous geographical horizon.

Cooperative research on health care issues and diffusion of health and nutritional information

Cooperative research and development organizations and associated departments in universities promote policy development and operational efficiency. For example, the *Gabinete de Estudios y Promoción del Cooperativismo Santario* in Argentina, the *Espriu Foundation* in Spain and the *Centro Studi* of the *Consorzio Nazionale della Cooperazione di Solidarietà Sociale "Gino Matarelli"* in Italy specialize in these areas. At regional level, research is undertaken by CECOP in Europe and by the ICA's Regional Office in Costa Rica. At the global level the ICA's Committee on Cooperative Research has also examined this area of cooperative development in recent years.

Cooperative media enterprises and facilities operated by other cooperatives have played an important part in diffusing health and nutritional information and promoting healthy lifestyles. In a number of countries education cooperatives train staff at graduate and postgraduate levels and within continuing education programmes. This is the case, for example, in Portugal, where the Higher and University Education Cooperative (CESPU) offers courses in the two largest cities. Many health cooperatives provide their own training.

Employment effects of cooperative activity in social services

Up to now the number of additional jobs created by social services cooperatives cannot be assessed accurately, if only because this would not only mean having to count the new jobs created in social services cooperatives but also knowing how many jobs have disappeared in other sectors (such as the public sector or in non-profit/welfare organizations). However, judging by the growth in numbers of new cooperatives attending mainly to social services (in Finland alone over 700 cooperatives were

created during the 1993-98 period, of which 330 were workers' cooperatives) there must be positive net employment effects. A study conducted by the Swedish Institute for Social Economy in 1996 indicated that they might even be rather significant. The 20 cases they examined showed spectacular growth rates, which, even after subtracting losses elsewhere from the absolute numbers, were particularly obvious in the social care services and other areas which are not covered either by public or private institutions.

As a general rule, the quality of social services provided is contingent upon the employment and working conditions of the service staff. That is equally true for cooperatives providing such services. In most countries user-owned cooperatives are bound to comply with legally prescribed minimum standards and publicly agreed tariff structures when employing social or health care personnel. Although cooperatives might offer their staff a greater opportunity to influence decisions which have repercussions on their working conditions, they might also create more uncertainty because of difficult financial situations or only employ lesser qualified personnel. The working and employment conditions in provider-owned cooperatives might vary significantly depending on the legal and financial situation they face. Minimum protection and working standards should always apply — but might be circumvented due to initial capital shortages. Active members in a worker cooperative might be treated as employees with regard to taxation but not when it comes to labour protection or compulsory insurance, while professional providers cooperating at a secondary level might or might not continue to be seen as self-employed.

As in all service industries one issue is crucial to cooperatives: their working members might find it more lucrative to work elsewhere. This is perhaps less of a problem for medical or social care staff but bottlenecks often develop when the organization cannot afford to pay their management staff competitive salaries and/or bonuses.

2.3.3. The future for cooperative social services

During the past decades, various strategic and operational alliances have been created between cooperative insurers, health cooperatives, cooperative pharmacies and other cooperatives seeking to provide social and health benefits to their members and employees (e.g. in Colombia and Malaysia between insurers, provider-owned health cooperatives and other cooperatives and in Canada and the United States, where apex organizations are promoting health and social care cooperatives). Elsewhere integrated complexes have been created which include a wide range of specialized subsidiaries (e.g. in Brazil, as mentioned earlier in the text), in Italy where Unipol has set up a subsidiary to provide health insurance in close collaboration with the cooperative, trade union and mutual movements, and in Sweden, where national cooperative housing and insurance organizations have promoted health and social care cooperatives). In a few countries (notably in Belgium, Italy, Japan, Portugal and the United States) special national apex organizations have been set up by certain of the types of cooperatives in this sector.

At an international level, efforts to further the social dimension of cooperatives have also intensified. The European Committee of Workers' Cooperatives (CECOP) has a Department of Social Cooperatives, active in promoting provider-owned enterprises. The International Cooperative and Mutual Insurance Federation (ICMIF) has

set up an Insurance Intelligence Group, one of whose current tasks is to explore the possibilities of further expansion in the provision of health insurance. Good progress has been made towards setting up a new specialized body of ICA — an international health cooperative organization. Membership does comprise cooperative organizations affiliated directly or indirectly to ICA which have as their aim or partial objective the provision of health care to their members or the provision of self-employment for health professionals. Educational and research institutions which promote health cooperatives or related services are also eligible. The promotion of school and university cooperatives in Asia has been greatly promoted by the efforts of ICA:ROAP. Developments have been followed with interest by intergovernmental organizations including the United Nations, ILO, WHO, UNDP, UNESCO, the World Bank and the European Union.

The growth in social service provision by cooperatives has also been significantly influenced by the interest shown by governments. In most countries further expansion of cooperatively organized social activity must involve some kind of relationship, and preferably formal partnerships between cooperative and public sectors. Steps at national level have been taken in a number of countries, notably Canada, Costa Rica, India, Italy, Sri Lanka, Sweden and the United Kingdom. In Costa Rica, for example, the Social Security Bureau began in 1988 to contract cooperatives of health providers to take over and expand public health services. In Malaysia the Government has recently transferred part of the public health sector to a comprehensive cooperative system, comprising a national network of doctor's cooperatives financed by cooperative banks, delivering services to members of the cooperative movement, with health insurance provided by the Malaysian Cooperative Insurance Society. The United Kingdom's Department of Health has commissioned a study from the Centre for Social Research at Loughborough University.

Equally promising are certain policies and legislative approaches allowing for the creation of so-called multi-stakeholder organizations (e.g. ECOM in the United Kingdom, social security cooperatives in Italy, the *Union d'Économie Sociale* in France). To some degree they are a reflection of the wide interest shown by regional and local governments in the cooperative provision of social services. The main difference between multi-stakeholder cooperatives (frequently including a geographical community) and homogenous cooperative groups (particularly productive or workers' cooperatives), profit companies and welfare-oriented NGOs alike, is the need to come to internal compromises on many issues before activities can commence. On the one hand this creates higher decision-making costs and might take longer. But there are significant advantages to compensate for this: volunteer work usually plays a significant role; various members will be consumers as well as producers in this model; and workers are usually also members of management (in contrast to many NGOs and most profit organizations). This brings increases in efficiency through a tighter control of costs and reduction of opportunistic behaviour — and thus in transaction costs. Furthermore, the involvement of consumers in decision-making on how the services should be offered eliminates some of the problems characteristic to the market for social services: the level to which asymmetric information governs provision and dictates costs will drop significantly; as soon as customers are partly responsible for both provision and cost, they are enabled and under some pressure to transmit their preferences directly; and they will be far less inclined to overutilize the services.

If these models were further evolved and adapted, they would seem to have a good deal of potential for being copied — particularly when taking into consideration the needs in developing countries and countries in transition.

In a global study carried out in the mid-1990s the United Nations Department for Policy Coordination and Sustainable Development (in close collaboration with the ICA) identified the following principal determinants for the successful development of cooperative enterprises in the social sector:

- the extent to which the formal public sector shows responsibility and effectiveness;
- the nature of the legal and administrative environment determined by perceptions held by legislators, ministers and officials;
- pressures upon policy-makers from other stakeholders (citizens, cooperators, trade unionists, members of other social movements, health and social care professionals and representatives of the private for-profit sector), each holding their own perceptions;
- availability of the catalytic energies of a small number of particularly committed individuals;
- availability of support by broader cooperative and other social movement.

2.4. The role of cooperatives in public life and civil society

2.4.1. Introduction

The term "civil society" refers to the social fabric existing between family networks, government structures and business organizations, i.e. informal and formal groupings, associations, federations, advocacy and pressure groups and citizens' initiatives. Only in authoritarian one-party States is civil society considered a threat to government and as an opposition force.

The right of citizens to form such groupings in order to protect their interests against the State, to supplement services offered by the State and to express their views and aspirations, is usually guaranteed under the constitution as freedom of association and organization and freedom of expression. These rights are generally considered to be basic human rights and protected as such.

Group density in terms of the number of groupings of civil society in relation to the total number of citizens or in relation to space is seen by some as an indicator of the level of development in general and of civil society in particular.

2.4.2. Cooperatives and civil society in industrialized countries

In democratic countries, participation of citizens in policy formulation and lawmaking is not restricted to participation in elections or membership in political parties. By forming or joining advocacy or pressure groups and — depending on the level of intervention — citizens' initiatives (concerning community issues), regional and national federations (e.g. concerning environmental programmes, provision of services such as health care, education, creation of employment, tax matters), citizens

create new venues and opportunities to express their views and to solve their problems — if the State fails to do so.

Cooperatives, being at the same time associations of persons and business enterprises, mainly promote the economic interests of their members by means of joint economic activities. They differ from commercial enterprises because of their service orientation and value base, which are similar to those shared by civil society organizations. Therefore cooperatives can be perceived as being closer to civil society than commercial business undertakings.

As user-driven enterprises, they are need-oriented rather than profit- or shareholder value-oriented, investor-driven enterprises. Cooperatives usually work together with other cooperatives in vertically integrated systems, forming a cooperative movement, and together represent a substantial percentage of the population (e.g. in Germany with 20 million cooperative members, every fourth German belongs to a cooperative) but only a relatively small share of GDP (e.g. in Germany below 3 per cent). In many countries, cooperatives have built up a nationwide dense network of local and regional organizations, branch offices, primary societies, federations, unions and apex organizations.

However, cooperatives usually keep a low profile in social and political issues and concentrate on their economic activities in their special way of doing business.

Since the 1980s, there is a trend in some countries (e.g. Belgium, France, Italy, Spain), supported by the EU, to increase the political weight of cooperatives by urging them to join forces with associations in the health and social service sectors and mutual insurance organizations to create a special "third" sector of the economy, based on user-orientation, service near cost and strong solidarity beyond the limits of membership — the sector of *économie sociale*.

This trend is viewed with concern by those who believe that strict member orientation and solidarity limited to membership groups are the main source of strength of cooperatives and their *raison d'être*.

Although cooperatives — by their special orientation — are geared to promoting the interests of their members, they also have indirect positive effects for the general public. For instance, consumer cooperatives set standards for consumer protection (Migros and Coop in Switzerland) and for protection of the environment (consumer cooperatives in Japan, pioneering the recycling of waste, using electric delivery vans in congested cities, agricultural cooperatives specializing in bio-farming). Housing cooperatives also set general standards for social housing, workers' cooperatives create employment; and cooperative banks give access to locally available banking services to persons of limited means.

By defending the interests of their members, cooperatives defend at the same time the interests of certain groups of the population (small farmers, consumers, savings account holders, etc.). They demonstrate to the general public that economic activities need not necessarily be directed to maximize profit and shareholder value, but can also be need-oriented, improving the quality or reducing the price of goods and services.

In cooperatives of the mutual variety, the surplus is kept in indivisible reserves for future generations or allocated to finance activities of general interest in line with the principle of concern for the community, as members may decide.

In most countries cooperatives keep aloof from party politics. Yet, there are countries in which a cooperative party exists (e.g. United Kingdom) or in which the cooperatives in one country are subdivided into different movements close to different

political parties (e.g. Belgium, Italy). Agricultural cooperatives tend to support conservative parties while consumer, housing and workers' cooperatives are closer to social democratic parties. Cooperative leaders are also often members of advocacy groups. Furthermore, cooperatives support civil society groupings.

The main contribution of cooperatives to civil society is that they are schools of democracy, allowing their members and elected representatives from grass-roots to global level to practise participation in and democratic control of goal-setting and decision-making processes. Through their principle of open membership, they offer people from all walks of life, young and old, male and female, a training ground for practising or witnessing the application of cooperative values of honesty, transparency, equity, equality, social responsibility, solidarity, voluntary submission to group discipline, caring for others and concern for the community. Indeed, many political leaders have learned their basic lessons in democratic decision-making and control as members of cooperative societies.

Withdrawal of the State from promoting social and health services has encouraged self-help activities in these fields and motivated cooperatives to develop strategies to create alternative, user-controlled, democratically managed, locally rooted service delivery systems at affordable prices.

Cooperatives have also become active in the protection of the environment. For example, members of Japanese consumers' cooperatives test the quality of tap water and bring the results of their tests to the notice of local governments through their cooperatives. Consumer cooperatives in Switzerland actively promote products which are safe for the environment. The British Cooperative Bank and the German Oko-Bank refuse to finance projects that are detrimental to the environment. Multi-stakeholder cooperatives (e.g. community cooperatives in the United Kingdom, cooperatives for social solidarity in Italy) strengthen civil society by putting projects prepared and supported by associations, self-help groups and NGOs into practice and by combining the efforts of voluntary associations, cooperative entrepreneurship and communities to solve pressing local problems.

2.4.3. Cooperatives and civil society in developing countries

During colonial times cooperatives were the only legal form of private association which producers, traders and consumers were allowed to use for promoting their economic interest by means of organized group action. The formation of cooperatives was government-controlled. Registering authorities had the power to decide whether they "thought it fit" to register or refuse registration.

In countries following the British legal system, other groupings with more than 20 members were considered illegal and anyone joining such illegal associations, allowing meetings of these associations to be held on their premises or serving as leaders of such associations, had to face severe punishment.

Up until 1966, political neutrality was one of the principles of cooperation; however, it was struck off the list of principles because the commission for review of the cooperative principles felt that (especially in communist countries) even to claim political neutrality amounted to taking a political position. In 1995 the principle was reintroduced by the ICA Centennial Congress under the heading "autonomy and independence".

In developing countries, many national leaders in the first years after independence acquired their knowledge and skills of managing democratic organizations while serving in cooperatives.

After independence restrictions on the formation of groupings were relaxed and a multiplicity of pre-cooperative groups and other forms of self-help organizations emerged: these were partly promoted by development agencies, programmes and projects, and partly initiated by religious, political and social welfare organizations.

At present, as the State is gradually withdrawing from social and economic activities, the influence of large business enterprises, multinational corporations and global players is increasing in developing countries. The influence of advocacy and pressure groups and regional and national federations is also growing, despite the continuing reservations of governments towards all kinds of groupings outside government control.

The colonial origin of cooperatives and their role as instruments of government during the 1960s to the 1980s have tarnished their image in the eyes of the general public, while governments still view emerging autonomous cooperatives with some suspicion. Especially when cooperatives try to enter lucrative fields of business such as purchasing and marketing of cash crops — which in many developing countries are the government's main source of foreign exchange — they meet with resistance by vested interests and are restricted by laws, regulations and policy measures.

In many countries, primary cooperatives are too weak to form and finance their federations and unions and apex organizations. In this case the general rule "control follows money" applies. If apex organizations depend on government or other external funds for their survival, they usually remain insignificant as political partners. As QUANGOs (quasi NGOs) they only play a limited role, despite their numerical strength in terms of membership (e.g. Indonesia, Thailand).

Where self-reliant and strong cooperative apex organizations exist (e.g. ANGKASA, Malaysia; SNCF, Singapore) they are usually associated with the formulation of policies and legislations affecting the operations of their affiliates, either by direct consultation or by participation in committees or invitation to parliamentary hearings. Where cooperative organizations represent a substantial percentage of producers of a certain commodity (e.g. URECOCI-Côte d'Ivoire, representing 80 per cent of all cotton producers of the country), members of a profession or inhabitants of a region, their weight as an economic and social force cannot be ignored by government.

In order to enhance their role in civil society today, it is vital that cooperatives in developing countries should: overcome the bad image they had in the past, when they were development tools or instruments for surplus extraction in the hands of colonial masters or government, by stressing their character as self-help organizations working primarily for the benefit of their members; and change their image of inherent inefficiency and corruption by investing systematically in the education of their members and training office-bearers and employees to enhance the transparency of their operations, the quality of management and the efficiency of their control systems.

If the cooperative movement in developing countries succeeds in building up solid, member-controlled and financially sound primary cooperatives, its potential to fill the vacuum left by deteriorating traditional values will be tremendous. With their commitment to the values of honesty, equity, equality, democratic participation and social responsibility, and with their ability to combine individual interests with solidarity,

autonomy with voluntary group discipline, and tradition with progress, the cooperatives and their value system could contribute greatly to the development of civil society in these countries.

In many countries, cooperative apex organizations have struggled over the years for deregulation and more liberal cooperative legislation which would create a more appropriate legal environment for their member organizations.

2.4.4. Cooperatives and civil society in countries in transition

In the economies in transition, development of civil society outside government control became only possible after the communist regime had collapsed. Under communist governments, the only legal groupings were those approved and supported by the communist party. Independent or opposition groups were illegal. To be a member or leader of such illegal groupings was severely punished. In this system, the communist cooperatives (collectives, consumers' and housing cooperatives) were directly associated with and controlled by the Party and the State, with the degree of autonomy to regulate internal matters varying from one country to another (e.g. more autonomy in Hungary and Poland than in the former German Democratic Republic and the former USSR). Informal groupings of dissidents and trade unions going beyond their official mandate were instrumental in toppling the communist regimes.

As freedom of association and expression and the right to organize constitute the cornerstone of civil society, these basic concepts incorporated into the constitutions of countries in transition, allowing the full spectrum of non-governmental organizations to grow. In some countries (e.g. Poland) the depoliticization of cooperatives was carried out with determination and all federations and unions of cooperatives were dissolved and liquidated; in other countries (e.g. Czech Republic) the main emphasis was placed on the redistribution of collective cooperative property to former private owners or on the transformation of communist collectives into companies or workers' productive cooperatives (e.g. the Russian Federation). This allowed many leaders from the communist era to remain in their positions as chairpersons or managers.

In countries in which communist collectives were successfully transformed into market-oriented, democratically controlled cooperatives, or new cooperatives with democratic structures were established, the intention was to strengthen civil society. However, many of the newly formed cooperatives in the Russian Federation under the 1988 cooperative legislation, which allowed three or more persons to form a cooperative for carrying out private economic activities which otherwise were prohibited, were purely profit-oriented business undertakings. Large sums of money earned by the members of such cooperatives were later invested to acquire shares in privatized collectives. Many of these new cooperatives served personal enrichment rather than the development of civil society.

In transition countries, cooperative apex organizations have contributed to strengthening civil society by initiating and influencing new cooperative legislation, e.g. in the Russian Federation and Hungary, broadening the scope for private business activities and thereby laying the ground for the development of non-governmental organizations to represent the interests of citizens vis-à-vis government.

CHAPTER II

PREREQUISITES FOR SUCCESS

1. Cooperative entrepreneurship and management skills

Entrepreneurship and good management are the first prerequisites for cooperative success. Although there are many adverse environmental factors hindering cooperative development, the most significant problem preventing cooperatives from responding successfully to the new deregulated markets is their failure to recognize and develop professional cooperative entrepreneurship and good management.

Entrepreneurship helps cooperative enterprise to be integrated in its environment, to use the opportunities and to take calculated risks in creation, innovation and rehabilitation.

Management skills enable the rational combination of scarce resources to produce competitive goods and services for free markets.

From their original conception as private self-managed enterprises democratically controlled by the members, cooperatives have known many variants throughout the world. In industrialized countries they have to compete with commercial firms, which means strengthening their marketing skills but losing some degree of control over their membership. In developing countries and countries in transition cooperatives have tended to be administered by the government or by NGOs; as the State in recent years has begun to disengage from this area, survival has become more and more of a challenge for cooperatives which they will not be able to take up successfully without learning the art of entrepreneurship and good management.

2. Government policy and cooperatives

2.1. Background

Global political, economic and social changes have put pressure on governments to rethink their policies towards cooperatives. As a consequence of technological innovations, liberalization measures and global competition, many cooperatives have found it difficult to respond to the challenges and opportunities which they are now confronting.

Since the early 1980s the previously prevalent view of the role of the State, which, often for a variety of ideological and structural reasons, was expected to cater for a whole range of social and economic needs of its citizens, has been abandoned. Internal budget constraints, external debt burdens and the end of the ideological world divide, have all caused governments to review their policies towards the private sector and to shift the prime responsibility for economic, and to a lesser extent social, services away from the State. This new approach calls for more self-reliance and self-help on the part of citizens.

In some countries, where a number of structural obstacles stood in the way of such developments, the international community — and subsequently many national governments — have, under what have come to be known as "structural adjustment programmes", started to deregulate, privatize and liberalize their economies and social sectors and to allow privately-owned entities to exercise increasing control. Where the World Bank is advocating privatization and deregulation programmes, the World Trade Organization (WTO) and regional economic organizations foster national and cross-border liberalization of trade, and the International Monetary Fund (IMF) oversees the necessary accompanying monetary and fiscal stabilization programmes. The ILO, for its part, seeks to ensure that social and employment standards are respected while structural adjustment measures are applied.

Apart from meeting fiscal limits, state involvement in economic and social affairs is now popularly judged as being inefficient and detrimental for the "human rights" approach to development, which requires a sustained and independent economic basis. If the "top-down" approach which hitherto pervaded public policies is to be replaced by a more "people-centred, bottom-up" approach, then private institutions have to fill the vacuum which the withdrawal of government creates. It is now gradually becoming clear to many policy-makers that sole reliance on the investor-owned company model of enterprise is not appropriate, and that the diversity of social and economic needs must be met by a wider range of institutions. Alternative models, especially self-help organizations of various types including cooperatives, had sometimes lost their reputation as effective mechanisms in many countries, because of disappointing performance. This was often due to inappropriate government policies towards cooperatives, which frequently distracted them from their real task of serving their members. Also, the officials of cooperatives in some countries lacked business skills, especially where they had been run by administrators (often appointed or approved by government), rather than by managers capable of functioning within a market economy.

2.2. Public policy in relation to cooperatives

2.2.1. What cooperatives should expect

If it is accepted that the State exists to serve its citizens by providing a framework in which they may live as they wish, while at the same time ensuring that the rights of the community in general are protected, then it is reasonable to expect that freely established organizations will be entitled to similar freedoms and that their development will be facilitated. Thus, cooperatives, as an extension of individual will, should be supported but should not expect to enjoy an extra-privileged position. The State and its agencies should deal with cooperatives in the same way as they deal with all individual citizens and the organizations they may jointly establish. In other words, cooperatives should expect treatment equal to that afforded to other forms of enterprise, with minimal intervention in their affairs by national and local governments or agencies.

Governments at the local, regional, national and supra-national level should provide a legal framework that allows intervention in the affairs of cooperatives only to protect the interests of their members. The legal framework should also protect the interests of those who deal with the cooperatives as third parties. All citizens and corporate organizations can reasonably expect government to provide certain services, such as defence, education and some degree of social services, and that these items will

be financed from taxation. Cooperatives and their individual members should expect to be taxed, but only fairly and equitably, taking into account their special nature.

Cooperatives are also entitled to expect that the form of their enterprise will be treated equally when action by the State affects the lives of its citizens. For example, the cooperative form of enterprise should be included and fairly represented in the curricula of schools, colleges and universities. Similarly, any provisions that might benefit other forms of enterprise should, as of right, also be extended to cooperatives. Examples include provision for training, tax concessions or incentives designed to stimulate investment, or investment grants. The principle of equal treatment for cooperatives relative to other forms of enterprise needs to be clearly established.

The public interest

The State can be expected to take certain actions in the common interests of its citizens. However, this often involves a degree of intrusion into the lives of individuals and their institutions, so that a fine balance must be struck between the benefits gained from such intervention and the resultant loss of freedom. When acting to further the collective good of citizens, governments may wish to encourage the development of cooperatives as institutions capable of bringing benefits to the general public as well as to their members. Typically, cooperatives have been regarded as organizations that can, by correcting imbalances in the market-place, combat the income and wealth differentials that create conditions for poverty. Cooperatives are also perceived as organizations that foster self-help, and thus their development is often regarded as a means of problem solving that is an alternative to state intervention.

Cooperatives have been seen as a means of improving the national economic position because of their capacity to group together primary producers (particularly in agriculture), thus enhancing development of the export trade. This subsequently benefits the national balance of payments and the wealth of the nation. Cooperatives are also considered capable of reducing unemployment, because they usually create locally based jobs. They can provide an alternative to dependency on state provision of health and care services. They are also often encouraged to provide consumer goods and services in rural areas, because investor-controlled companies are usually interested in more rewarding investments. There is, therefore, a wide range of circumstances in which governments may find it in the public interest to facilitate the development of cooperatives.

In many parts of the world governments have made serious mistakes when attempting to promote and develop cooperatives where they have established schemes that have only had the result of inhibiting the potential for cooperative growth and expansion.

Those concerned with cooperatives should be expected to encourage their governments to provide them with a positive framework based on fair and equal treatment. Generally, any government stimulation aimed at developing specific forms of cooperatives will be temporary or transitional in nature and carried out in ways that respect the integrity of the cooperative as an autonomous institution controlled by free citizens. In particular, it needs to be recognized that cooperatives are essentially self-managed, self-help enterprises, so that any direct intervention in their affairs is ultimately self-defeating as a means of securing cooperative development.

Providing a positive framework

Those involved with cooperatives in Denmark are often quick to point out that they do not have the benefit of any separate legislation for cooperatives, and that their requirements are adequately covered by the general laws. At the other end of the legislative spectrum are the States that provide voluminous legislation covering every angle of cooperative administration and activity. However, the cooperative legislation of most countries fits somewhere between these two extremes.

Those interested in seeing cooperatives play a dynamic role in the next century must work towards securing legislation that accommodates the needs of modern-day cooperatives. It can be dangerous to enact and implement laws that are too detailed, as this tends to lead to a high level of state interference in the affairs of cooperatives. The task of designing a legal framework for cooperatives should proceed from the premise that as many decisions as possible should be left to the members of each individual cooperative. This assumes, however, that both present and potential members are adequately protected against exploitation by others involved with the cooperative. A level of protection also needs to be provided for the name "cooperative", so that people are not hoodwinked into believing that an organization is a cooperative when in reality it is not. Third parties dealing with cooperatives are also entitled to some protection.

The chief intent of any cooperative legislation should be to provide the framework within which cooperatives can carry out their purpose of providing benefits to members. On one hand the law needs to be positive and enabling, but at the same time it should emphasize the self-governing nature of cooperatives.

Supporting cooperative development

Although the direct involvement of governments in the affairs of cooperatives is to be discouraged, they can play a positive role in developing cooperatives by supporting projects for cooperative development.

2.2.2. *Competition policy*

It is now widely accepted that it is part of the duty of the modern State (as well as of supra-national entities such as the European Union, the North American Free Trade Area and the World Trade Organization) to maintain free and open competition. Fostering competition between enterprises is intended to safeguard the interests of consumers. This is accomplished by preventing one provider of goods or services from exploiting a situation by colluding with other enterprises to restrict competition and thus increase prices and profits artificially. Regulatory authorities seek to prevent the development of price-fixing agreements and cartels and to place limits on enterprises that have achieved a dominant position in any specific market. However, in most cases it is not possible to demonstrate that the activities of regulatory authorities have actually resulted in lower prices for the consumer.

Cooperatives often become the target for competition legislation because the very act of cooperation involves the collaboration of individuals who agree to act in unison. Such activity is usually an attempt to bring their joint power in the market-place up to the level achieved by enterprises that are operated for the benefit of other stakeholder groups. Primary producers (farmers, fishermen, craftsmen, etc.) cooperate in order to

get a fair deal from the large-scale buyers of their products; consumers cooperate to get a better deal from manufacturers and suppliers; and credit unions are often formed to counter the power of large financial institutions. Governments must recognize the essential difference between the collaboration of individuals who are comparatively "small players" in the market (cooperatives) and the anti-competitive practices of large investor-driven enterprises. For example, the special nature of agricultural cooperatives is recognized by the Treaty of Rome, which established the European Community (now the European Union).

Primary producer cooperation is significantly different from the collusion that can take place among large companies. However, conflicts between cooperatives and competition-promoting authorities are quite common, often because the relevant legislation does not properly distinguish between cooperatives and cartels. Many of those administering the applicable legislation simply do not comprehend the cooperative model of enterprise.

However, there are situations in which the governing bureaucracy of a cooperative seeks to gain advantage from a dominant position in the market. As a result, cooperatives should expect to be subject to the general rules of competition policy. At the same time, however, they can reasonably expect their normal joint activities to be differentiated from collaboration with intent to exploit a dominant position in any market. When cooperatives insist upon excluding those who should be eligible for membership, but at the same time trade with them, then the competition authorities should take action against them. This is particularly true if they engage in an excessive proportion of non-member trade. Cooperation should never be equated with exploitation. Cooperatives must ensure that they never take unfair advantage in their marketplace or else they will forfeit their right to be treated as cooperatives.

2.2.3. Taxation

In terms of taxation, the main differences between cooperatives and other enterprises derive from the fact that cooperatives are often treated as a "mutual activity" (in effect, only an extension of the individual) and that cooperatives do not have the primary purpose of creating a profit (instead relying heavily on profit retention for financing their future development).

Although governments differ widely in their approaches to taxation, specific tax treatment for cooperatives is usually based on two principles. These are "mutuality", and/or the idea that the services of a cooperative are essentially provided at cost, and that taxation is therefore only payable on profits arising from transactions with non-members. Whereas an investor company is usually taxed on the profits it creates (including retained profits and those distributed to its investors), the cooperative's profits will be taxed only when they reach the hands of the individual member or if they are retained as the collective wealth of the cooperative. In some cases retained profits may not be taxed, because they are regarded as joint or mutual property and only taxable if distributed to individual members.

Taxation, as most of us know only too well, is not limited to direct taxes applied to income and corporate profits. Many other taxes, such as value added tax (VAT), excise duties, inheritance taxes and property taxes, also affect cooperatives. The total impact of taxation on cooperatives and their individual members can be considerable. Often

those involved seek to reduce the impact of taxation on their cooperatives by pressing for governmental concessions. In some cases the pressure to minimize taxation has resulted in cooperatives actually being designed around a government's arrangements for the collection of taxes. As a consequence, tax avoidance rather than the pursuit of its prime objectives becomes the top priority of the cooperative. It is important to lobby governments for tax treatment that does not have this effect.

In some countries the system for tax collection is based on the assumption that people will inevitably take evasive action to avoid paying tax, and so the system is designed to bring various aspects of an enterprise's income into the "tax net". This type of multi-level taxation can be extremely punishing to cooperatives because they are member-controlled and need to be relatively transparent in their dealings. The account books of the average cooperative will reveal its true position, whereas in some cases the individual entrepreneur or the free-wheeling investor company will have no such internal pressures to reveal the true financial position. As a result, cooperatives often carry an unfair burden of taxation.

Governments sometimes use tax incentives and concessions to encourage certain activities deemed to be in the public interest. For example, they might wish to promote investment in capital facilities (e.g. factories or new technologies) in order to encourage people to provide for their own social welfare, such as pensions, health care and insurance. The taxation system may also encourage the formation of cooperatives by granting concessions designed to motivate people to deal jointly with particular problems. Governments may provide tax incentives and concessions to encourage enterprises and individuals to invest in particular ventures or to encourage specific forms of commercial activity. However, even when this is the case, there is often a failure to make proper provisions for cooperatives. This usually occurs because the civil servants and politicians drafting the legislation and related rules do not fully appreciate the specific needs of the cooperative sector. Cooperatives need to constantly monitor all taxation policies to ensure that they receive fair and equal treatment that takes into account the special nature of their enterprises.

2.2.4. The contracting State

Until a few years ago it was assumed that governments would directly provide most of their mandated services. Now, however, it is much more common for local, regional and national authorities to contract external organizations to undertake these functions. Cooperatives have not always been considered as "service providers" by those making the decisions to contract out or to transfer responsibility for governmental services. In this divesting process there are considerable opportunities for enterprises run by stakeholders other than investors, but once again the policy-makers' lack of knowledge about the cooperative business model often excludes cooperatives from these arrangements.

New forms of contractual relationships may be developed whereby cooperatives provide services that were previously subsidized by the State. However, if cooperatives do provide such services it is important that the relationship between them and the State is clear. If the service is provided by a workers' or a community cooperative, the relationship may be more straightforward than that enjoyed by a consumers' cooperative, particularly if the contract involves the provision of services to non-members.

Great care needs to be taken to ensure that the State does not indirectly take over from the members as the cardinal stakeholder in the cooperative.

2.2.5. Education and training

In most countries cooperatives are probably most seriously disadvantaged by the State in the provision of education and training. Curriculum content usually propagates the view that there is only one form of private enterprise — the investor-driven company. In such circumstances it is not just a case of needing to complain against political bias, but more significantly of needing to break the circle of self-perpetuating ignorance. Too often the teachers and lecturers in educational institutions simply pass on their lack of knowledge of the cooperative business model to their students. People throughout education and training systems need to receive more information about a model of enterprise that is capable of playing a dynamic role in building local communities, creating national wealth and promoting international stability.

Cooperatives can, in their own best interest, make inroads into this problem by developing closer ties with schools, colleges and universities so that they begin to take an interest in the cooperative business model and understand it better. In order to make an impact on a national scale, cooperative central organizations and lobbying groups need to press for the retraining of teachers and trainers in order to extend their knowledge of cooperatives and ensure that the cooperative business model is adequately covered in the curriculum. Obviously, this coverage should not be in any way dogmatic, but presented simply as an important model of business organization that belongs in the understanding of all those who will have to meet the challenges of the next century.

Those running vocational, technical and business training facilities are often no less deficient in their knowledge of the cooperative business model, and professionals such as accountants, lawyers, architects and doctors commonly know almost nothing about cooperatives. Steps need to be taken to introduce knowledge of cooperatives throughout the vocational and professional training systems, so that the "reinvented" cooperative is better understood by all aspects of society.

2.2.6. Non-profit versus not-for-profit

Policy-makers are frequently confused by the status of cooperatives, sometimes referring to them as "non-profit" organizations. While it is true that generating profit is not the main purpose of cooperatives, they do maintain a surplus of income over expenditure. As with all other types of business enterprise cooperatives that do not make a profit will end up making losses.

Although cooperatives do not exist primarily to make a profit, many have the principal purpose of increasing the profitability of the activities of their individual members. A cooperative can properly be described as a "not-for-profit" organization; it is only charities, which obtain money with the intention of providing services without seeking to realize any profit, that can be accurately described as a "non-profit organization".

This distinction between cooperatives and non-profit organizations is important in terms of securing appropriate public policy. Any confusion between self-help organi-

zations (which cooperatives are) and charities (which do things for people in a relationship of dependency) can only be detrimental to cooperatives and should be avoided at all costs.

2.2.7. *Transitional provisions*

In many countries and within specific areas of economic activity, cooperative forms of enterprise have considerable catching up to do in order to rank equally with the investor models of business. In some situations the first step in this process requires that the cooperatives be returned to their members by the State or a political bureaucracy. In other cases cooperatives have been deliberately disadvantaged by political bias in favour of investor companies and by policies that appear to have assumed this was the only available model of enterprise. Returning balance to the economic system will often require a package of legislative and policy measures to put cooperatives back into the range of private organizations which are available to play a constructive role within the economy.

In many instances, the necessary measures may involve updating the legislation pertaining to cooperatives, which has so often been neglected in comparison with modern company legislation. Any such new legislation may need to include provisions that allow cooperatives to make up some lost ground and to get them on what is popularly described as a "level playing field". Some of the activities required may be more properly addressed as part of an overall cooperative development policy. Cooperative development policy may be focused on developing cooperatives in general, but will often be geared towards developing cooperatives that are designed to meet specific socio-economic needs — for example: improving agricultural marketing structures; providing agricultural inputs at prices which allow farmers to compete internationally; expanding the role of rural consumer/service cooperatives; encouraging social service cooperatives; providing and managing social housing; addressing the effects of social exclusion; and fostering cooperatives that can contribute to saving or creating jobs.

Policy support is often needed to encourage the growth and expansion of cooperatives and may call for a review of the coverage that cooperatives receive in education and training systems, and a review of the taxation framework, so that policies in these areas become conducive to the development of cooperatives. Other measures required may include stimulating investment in cooperatives by providing special funds for the purpose and/or making available management advice coupled with finance. This could necessitate the overhaul of the institutions that provide finance, so that they can cope adequately with the needs of cooperatives.

In the United States, for example, the National Cooperative Bank (NCB), which was created by Congress in 1978 with pump-priming finance, was reconstituted as a privately owned financial institution in 1982. Currently NCB and its subsidiaries provide a broad array of financial services to United States cooperatives and is especially active in the housing sector; however, it also provides finance to member-controlled enterprises in many different sectors of economic activity. NCB is now owned and controlled by about 1,000 cooperatives and plays an important role in developing cooperative enterprise throughout the country.

In the United Kingdom, the Industrial Common Ownership Finance (ICOF) was established with pump-priming finance provided by the Government. Its purpose is to

provide finance for cooperative forms of enterprise, especially workers' cooperatives. It now issues its own financial instruments and is in a position to maintain a loan portfolio for a range of cooperative enterprises.

2.2.8. Internal governmental representation

Government, at least at the national level and within federal or multi-state administrative bodies, is becoming increasingly complex. There is also a tendency towards more specialization in the responsibilities of government ministers. This means that much greater effort is needed to produce coordinated policies, thus avoiding situations in which the activities of one branch of government negate those of another. One specific government ministry should have responsibility for ensuring that cooperatives are treated with equality throughout the system. It should also be responsible for seeing that the special needs of cooperatives are taken into account by all departments of government. It is not uncommon for governments to establish a Ministry of Cooperatives, or at least for a minister to have the cooperative sector as a specific part of a broader portfolio. This is to be welcomed, provided that it is not accompanied by the threat of intervention in the internal affairs of individual cooperatives.

For example, within the European Commission of the European Union a special directorate (DG XXIII) has been established with responsibility for promoting the interests of cooperatives, along with those of associations and mutual benefit societies. For a period during the 1980s and 1990s a department within the Federal Government of Canada provided a service to its other government departments which ensured that cooperatives were properly taken account of when governmental policy was being developed.

There is a widespread need to coordinate the way different arms of government implement public policy towards cooperatives. For example, account must be taken of the costs of social security and/or unemployment benefits paid to people who are "abandoned" when investor companies move out of a national location. The cost of social capital that is wasted when areas become derelict must also be recognized. The government departments responsible for picking up these costs need to see them linked directly with the decisions taken by taxation authorities. Enterprises such as cooperatives, which have a commitment to a specific community, do not normally inflict such costs on government, and these facts should be reflected in the tax liability of the different forms of enterprise. In short, public policy needs to be more closely integrated. In future, the kinds of policies implicit in the belief that the "polluter should pay" can be expected to be applied more widely. Such approaches will surely provide incentives to cooperative models of enterprise, which can offer greater total benefits to their members, to the communities in which they work and to the national well-being.

2.3. International policies

The United Nations Secretary-General has repeatedly emphasized that cooperatives are a means of creating productive employment, overcoming poverty and achieving social integration, as well as of mobilizing and allocating social resources effectively. The World Summit for Social Development in 1995 endorsed this fact by committing itself to utilizing and fully developing the potential of cooperatives to

create full and productive employment through the establishment of legal frameworks that would encourage them to mobilize capital and promote entrepreneurship. Specialized United Nations organizations, such as UNESCO, UNHCR, FAO, WHO, UNFPA, UNRISD, HABITAT, UNDP, WFP, IFAD and UNIDO, refer to cooperatives as vital organizations in the pursuit of their goals.

At the same time it became apparent that policies were needed which would allow cooperatives to live up to their newly regained reputation, making use of their comparative advantages. Cooperative policy issues have been on the agenda of innumerable regional and international meetings, for example:

- ministerial meetings organized by the International Cooperative Alliance (ICA) for different regions of the world;
- meetings of the member States of the South Asian Association for Regional Cooperation (SAARC), especially in 1997;
- an FAO-sponsored meeting at Gödöllö, Hungary, on cooperative issues in Central and Eastern Europe;
- a regional conference for anglophone Africa sponsored in 1996 in Diessen, Germany, by the ILO and the German Foundation for International Development (DSE);
- meetings of the *Conférence Panafricaine Coopérative*, especially its 11th and 12th meetings in 1996 and 1998 respectively;
- two ILO expert meetings in 1993 and 1995, on cooperatives and cooperative law respectively ;
- a series of ILO-commissioned studies and co-sponsored symposia on various aspects of cooperative policy and law.

The results of these activities contributed to the formulation of the ICA Statement on the Cooperative Identity at the ICA Centennial Congress in 1995 at Manchester (see appendix).

Together with the United Nations draft "Guidelines aimed at creating a supportive environment for the development of cooperatives", elaborated by the inter-agency Committee for the Promotion and Advancement of Cooperatives (COPAC) for submission to the United Nations General Assembly in November 1999, the ICA Statement sets out the main cooperative principles that are internationally recognized.

3. Cooperative legislation

3.1. Forms of cooperative legislation

The legal environment of cooperatives encompasses cooperative legislation in the narrow sense (i.e. cooperative act, by-laws and internal regulations) as well as relevant international conventions and standards and national constitutions and laws that regulate the economic and social domains in which cooperatives operate. The present chapter focuses on the status of, and trends in, cooperative legislation in the narrow sense of the term.

Cooperative legislation is necessary to establish the distinct identity of the cooperative society as compared to other private companies, to recognize the cooperative as a legal entity that can enter into contractual agreements with third parties, and to implement the cooperative policy of a particular country.

Cooperative legislation can be found in different forms:

- a general cooperatives law that regulates all types of cooperatives in a country; this is the most common form of cooperative legislation and can be found, for example, in Brazil, Côte d'Ivoire, Germany, Hungary, India (both at federal and at state levels), Jordan, Kenya, Mexico, Spain and Thailand. In some cases (e.g. Viet Nam), such laws become operational only if they are supplemented by sector-specific regulations that must be adopted by the government;
- separate laws for special types of cooperatives; some countries, e.g. Ethiopia, Japan, Romania, Uruguay and others, have adopted specific laws for different cooperative sectors; a growing number of countries have adopted general cooperative laws covering all types of cooperatives, with the exception of savings and credit cooperatives (or credit unions) for which a special law has been passed;
- specific chapters of more general codification such as the Civil Code (e.g. the *Obligationenrecht* in Switzerland), the Commercial Code (e.g. Belgium, partly Czech Republic, Guinea) or the Rural Code (e.g. France), or as a part of company law (e.g. New Zealand);
- special provisions governing the application of a more general organization law to cooperatives (such as the Industrial and Provident Societies Act in the United Kingdom);
- a few countries (China, Denmark, Norway, some states in the United States) have not passed any special legislation on cooperatives, but this is exceptional; at the other extreme, there are countries such as Guyana, Italy, Mexico, Namibia, Spain and Thailand that have included specific provisions on cooperatives into their national constitution;
- in federal States, cooperative law may take a variety of forms:
  - a general, federal cooperative law, but no state laws (e.g. Brazil, Germany);
  - no federal law, but state cooperative laws (e.g. Australia, United States);
  - federal laws and state laws (e.g. Canada, India, as far as "multi-state cooperatives" are concerned).

The various options outlined above all have their advantages and inconveniences, but the general view that has emerged over the years is that there is a need for a specific cooperative law which will permit the incorporation and registration of cooperatives and give confidence to those with whom they have commercial or financial dealings. Moreover, it is generally felt that the more satisfactory type of legislation covers cooperatives of all types, urban and rural, primary and secondary, and places them under the jurisdiction of a single ministry or governmental authority. This kind of arrangement, which of course does not prevent cooperatives from establishing working relations with other technical ministries, avoids the fragmentation of the cooperative movement itself, which may take place where cooperatives are registered under different acts and

placed under the supervision of different public authorities with, perhaps, heterogeneous policies.

In a democratic, market-oriented State cooperative legislation must be part of the legal framework provided for privately owned organizations; it should offer cooperators a framework which will permit them to develop their activities in an autonomous manner, and should not impose detailed directives on the functioning and powers of the supervisory authority, which should belong to the public sphere.

3.2. The status of cooperative legislation

Cooperative legislation, as with any other legislation, is not static but evolves to reflect changes in the social, political and economic conditions of the respective country. Some of these changes, such as the globalization of economic activities and the advancement of information technology, are of a global nature and affect every country in the world; others are more specific to certain groups of countries. The following paragraphs describe the impact of these changes on cooperative legislation in different countries.

3.2.1. In industrialized countries

The recent changes made in cooperative legislation in Western Europe, North America, New Zealand, Australia and Japan substantially originate from the desire of the lawmakers to grant cooperatives sufficient flexibility to adapt to a highly competitive environment without abandoning cooperative principles and democratic control. Many cooperative laws and amendments adopted during the 1990s introduce new forms of capital mobilization by cooperatives (e.g. France [1992], Germany [1994], Australia [NSW, 1997], Canada [1998]). These laws allow cooperatives to raise equity on the capital markets but determine voting right ceilings to prevent non-member investors from gaining managerial control over the cooperative society. Several new laws allow cooperatives to convert into other forms of company (Sweden [1987], Germany [1994], Canada [1998]). Cooperatives in all industrialized countries are struggling to be economically successful in a highly competitive environment while remaining close to their members. This is why contemporary cooperative legislation in these countries is getting closer to general company law, so that cooperatives operate on an equal footing with other types of private enterprises. Recent cooperative legislation in industrialized countries, such as the French "Law for Modernizing Cooperatives" [1992] seeks to find a compromise between management for service and management for profit.

3.2.2. In countries in transition

When the centrally planned economies of Eastern and Central Europe and other geographical regions began their transition to a market economy, their governments faced the immense challenge of elaborating a totally new legal, administrative and institutional framework for all aspects of life, including cooperative organization and management. They had to restore (or establish) the legality of cooperatives as service-oriented, private institutions and clarify by law their organizational particularities,

modalities of formation and management, and relations with the state and political parties. In addition, they had to solve the complicated problem of ownership rights, in particular in the case of agricultural collective cooperatives. The period 1988 to 1992 was therefore characterized by intense law-making activity, and almost all formerly communist countries adopted cooperative laws, or other laws or codes containing provisions pertaining to cooperatives, during this period. In the Commonwealth of Independent States (CIS), eight countries have promulgated new laws on consumer cooperatives, one (the Russian Federation) on agricultural cooperatives and two on producers' cooperatives, while three countries — the Republic of Moldova, Kyrgyzstan and Uzbekistan — have enacted general cooperative laws. In December 1997 the Inter-Parliamentary Assembly of the CIS adopted a "Model Law on Cooperatives and Their Associations and Unions". This law, however, is not binding, and several CIS countries continue elaborating sector-specific cooperative laws.

Contemporary cooperative legislation in the former communist countries does generally recognize the universal principles of cooperation and provides for a large degree of cooperative autonomy. However, these laws are not always fully adapted to local conditions and the local legal system, since they had to be formulated under great time pressure and (very often) under the strong influence of Western European law. This and other factors explain the great number of successive cooperative laws and amendments that have been adopted in this part of the world since the fall of the Berlin Wall.

3.2.3. In developing countries

The majority of the developing countries in Africa, Asia and Latin America have been confronted since the mid-1980s with the effects of economic liberalization, globalization and structural adjustment. In addition, many of them have introduced internal democratic reforms and decentralized their national administrative structures and decision-making processes. These developments have had a considerable impact on the cooperative movements of the developing world, especially in those countries where cooperatives were considered part of the government structure or an arm of the ruling party. As a result, the cooperative legislation of many developing countries has been subject to profound reform. No fewer than 15 sub-Saharan African States have adopted new cooperative laws since 1990, others have substantially amended existing legislation, and many more have elaborated drafts for a new cooperative legislation.

In the Asian region progress in the reform of the legal environment of cooperatives has also accelerated in recent years. More than ten Indian federal states are in the process of drafting new cooperative laws, sometimes in the form of "parallel" laws that supplement existing legislation. The new laws are based, to a large extent, on the Mutually Aided Cooperative Society Act of Andhra Pradesh [1995] which introduced, for the first time, the concept of full cooperative autonomy and self-reliance in India. In addition, Fiji [1998], Indonesia [1992], Jordan [1997], Malaysia [1992], Mongolia [1993], Nepal [1992], the Philippines [1990], Thailand [1999] and Viet Nam [1996] have adopted new cooperative laws. Other countries, including Bangladesh, Bhutan, several Central Asian Republics and Japan (for workers' cooperatives) are considering the revision of existing cooperative laws, while China has drafted a law on agricultural marketing and supply cooperatives which would be the first of its kind in this country.

Most of the Latin American laws relating to cooperatives were passed in the period between the two world wars; between 1971 and 1988 11 Latin American States adopted new cooperative laws. The general features of this legislation reflect a cooperative development model based on a strong state influence, except in the countries of the Southern Cone (Argentina, Brazil, Chile, Uruguay) where the strong influence of European immigrants contributed to shaping a more autonomous model. Several Latin American countries are presently revising (or planning to revise) their cooperative legislation. Mexico enacted a new, general cooperative law in 1994. Several Caribbean States are currently working on the revision of their cooperative legislation, but in most of them cooperative law has remained unchanged since the 1940s.

Cooperative legislation in the developing world prior to the reform movement of the 1990s was generally characterized by the view that cooperatives are not only a specific form of organization, but also an instrument of general social and economic progress. This view provided the justification for the incorporation of cooperative movements into governmental structures or the machinery of the ruling party. Today, it is generally accepted that this policy has led to widespread frustration among cooperative members and to a considerable waste of resources at all levels. This is why all cooperative laws adopted in the developing world since 1990 have reduced state influence over, and state sponsoring of, cooperatives, increased cooperative autonomy and self-reliance, and cut any links that might have existed between cooperatives and political organizations.

3.3. Current trends in cooperative legislation

In the absence of any readily available statement detailing the current trends in cooperative law-making and the significant features of contemporary cooperative legislation, the following analysis of more recently enacted cooperative laws is intended to summarize the current position.

3.3.1. The participatory approach to cooperative law-making

Cooperative law must be written for, if not by, those who are closely involved with cooperatives, whether working in the cooperative movement itself or in cooperative promotion institutions. Such persons should participate in the law-making process from the very beginning, e.g. through consultation campaigns, local and national workshops, and the setting-up of law reform committees. A few examples may illustrate the participatory approach to cooperative law-making:

- The 1992 Cooperative Act of Cameroon was drafted on the basis of the recommendations of a national workshop on cooperative development that had taken place four years earlier. The drafting period was characterized by intense, permanent consultations with all interested parties.
- The new cooperative law of the Indian State of Punjab is being elaborated by a commission which comprises not only government officials and cooperative leaders, but also prominent cooperative researchers, lawyers and NGO leaders involved in cooperative promotion.
- The new federal cooperative law of Canada was formulated after a comprehensive, nationwide consultation tour organized by the Canadian Government in the autumn of 1996.

The participatory approach may take a considerable amount of time, but this investment is well worthwhile if the result is a lasting law made, understood and adhered to by the people. Several countries have institutionalized the participatory approach by establishing a national council on cooperation (or similar organization) which plays a decisive role in policy- and law-making. Such councils exist, for example, in Belgium, France, Hungary and Namibia.

If the cooperative law is to be understood by the people, it needs to be written in layperson's language that avoids ponderous legal terms and numerous cross-references. If the legal tradition in a country obliges the lawmaker to use "legal jargon", or if a large percentage of the main addressees of the law (i.e. the cooperative members) are illiterate or not familiar with the official language of the nation, it is advisable to produce a layperson's guide to the law in the main vernacular language(s) and to organize a nationwide popularization campaign. Such campaigns have been launched successfully in, for instance, Cameroon [1993], India (Andhra Pradesh) [1996], Malawi [1999], Namibia [1997], Niger [1997] and Viet Nam [1997]. In a similar move, the cooperative apex organizations of most industrialized countries have produced simple guides to, or commented versions of, the national cooperative legislation, and many are now using the Internet to popularize and explain the legal provisions.

3.3.2. Confinement of the State to regulatory functions

The present report includes an extensive discussion of the changing role of government in cooperative development which need not be repeated here. This paragraph therefore describes how this changing role has had an impact on contemporary cooperative legislation, in particular in those countries in which the State played a decisive role in the formation, management and supervision of cooperative societies.

Virtually all cooperative laws adopted during the last decade restrict the hitherto all-embracing role of government in cooperative affairs to purely statutory functions:

- registration of cooperative societies;
- dissolution and liquidation of cooperative societies;
- control of the application of cooperative legislation by cooperatives.

The new laws separate promotional from control functions and prevent the public administration from interfering in the internal affairs of cooperatives in any way, except in cases where the public interest is concerned. Moreover, several new laws contain provisions designed to decentralize and accelerate the administrative procedures required to meet the statutory requirements.

The location of the authority responsible for the regulatory functions is important; given the multi-sectoral role of the cooperative movement, it would make sense to separate it from technical ministries such as the ministry of agriculture, and locate it in a neutral body such as a local administration, chamber of commerce or institution belonging to the cooperative movement itself. The importance of the role of the State in cooperative development obviously determines the size, denotation and administrative structure of the public authority in charge of administering the national cooperative legislation. In many countries the adoption of new, liberal cooperative laws has led to a sharp decline in the number of government officials responsible for cooperative

supervision, and sometimes to the pure and simple disappearance of entire administrative structures.

3.3.3. Flexibility with regard to the cooperative structure and organization

The issue of providing flexibility within cooperative legislation is a significant one, and may be subdivided into three areas:

- The legal recognition of organizations that operate according to cooperative principles without being able to set up the full business infrastructure expected from a fully-fledged cooperative society. This refers to the "simplified structures" mentioned above.
- Special provisions for smaller cooperatives with regard to accounting, external audit and management. A small cooperative society may not need a full-time manager, an elaborated accounting system, and a chartered accountant as auditor. Some cooperative laws determine a threshold in terms of turnover and/or membership below which a cooperative is subject to less stringent requirements in terms of accounting, audit and management. This is, for example, the case of cooperative acts South Africa [1982] and Madagascar [1999].
- Provisions governing the conversion of cooperatives into companies. This is an issue of controversy which is being debated in all countries where cooperatives have reached a certain size. Most cooperative laws of industrialized and transitional countries allow cooperatives to convert to companies; however, some researchers believe that cooperative legislation should protect the cooperative identity, and that facilitating conversions would be at odds with this approach.

The above issues lead above all to the conclusion that cooperative legislation should be strict in terms of the application of cooperative principles and identity but flexible with regard to the internal organization, structure and functioning of the cooperative enterprises.

3.4. The content of cooperative law

3.4.1. Key issues to be covered

Principal points

The principal points which cooperative legislation can be expected to cover include the following:

- a definition of a cooperative which makes clear its special character and lays down the principles on which it works; many cooperative laws have adopted the definition contained in ILO Recommendation No. 127 or in the Statement on the Cooperative Identity adopted by the Centennial Congress of the International Cooperative Alliance in Manchester (1995);
- regulations on the formation and registration of cooperatives, and on the admission, resignation and exclusion of cooperative members; this includes the conditions of membership;

- provisions on the rights and obligations of cooperative members, including those members that are employed by the cooperative (in the case of a workers' cooperative);
- provisions on the mode and period of election, composition, functions, rights and duties of the management organs of the cooperative (general assembly, board of directors, supervisory committee);
- rules governing the capital formation in the cooperative, the accounting system, the annual external audit, and the distribution of the society's surplus;
- regulations concerning the amalgamation, division, dissolution and liquidation of cooperatives;
- special provisions for unions, federations and confederations of cooperatives;
- provisions for arbitration and the settlement of disputes between cooperatives and their members, between cooperatives and the supervisory authorities, and between several cooperative societies;
- miscellaneous, transitory and final provisions as required by the legal system of the respective country;
- depending on the legal style of the country, the cooperative law might be introduced by a preamble that clarifies the relation between cooperatives and governments, situates the cooperative movement in the civil society and the national economy, and defines the broad objectives of cooperative development in the particular country;
- several recent cooperative laws include chapters on so-called "simplified cooperative structures", i.e. voluntary organizations that function according to cooperative principles without fulfilling all the formal requirements of a fully-fledged cooperative society. The concept of "simplified structures" has replaced that of "pre-cooperatives" which had a temporary status and had either to convert into "full" cooperatives or to disappear after the probationary period. Examples of simplified structures are the "common initiative groups" established by the 1992 Cooperatives Act of Cameroon and the "small cooperatives" for which special provisions have been included into the Italian cooperative law of 1997.

Cooperative legislation should respect the principle of subsidiarity, which demands that every cooperative be the master of its own decisions unless these affect public concerns or third parties. This means in practical terms that only matters which surpass the competence of the individual cooperative should be regulated through the cooperative law, while everything else can be determined in the cooperative's by-laws (rules). This notwithstanding, the cooperative law should be sufficiently detailed to prevent its character and emphasis being changed by supplementary rules, regulations and decrees. This is of particular importance in countries where laws become operational only if they are supplemented by decrees of application.

Governance and management

A major issue which needs at least to some extent to be addressed by cooperative legislation is that of the separation of powers between the management and the board

of directors, especially in large-scale cooperatives. Experience has shown that if a distinction is not made between the two and their respective powers are not clearly defined, situations often arise that lead to conflict and operating inefficiency. From a conceptual point of view, the board of directors is the true decision-making body while the manager is just an employee; in reality, however, it is very difficult for board members, who are elected from among the general membership, to understand today's complex business environment and to take adequate decisions. Recent cooperative laws therefore often stipulate that the board of directors limits itself to the definition of the broader policy framework and of a plan of work for the cooperative, and that the actual implementation of this policy is carried out by professional management personnel.

Unless there are adequate systems of checks and balances in place there is a high risk that the governance of larger cooperatives falls under the *de facto* control of professional managers. Therefore, cooperative laws should normally include provisions that guarantee the transparency of the management arrangements and the decision-making processes, and which help to preserve the democratic nature of decision-making in the cooperative.

Capital formation

The difficulties in raising a sufficient amount of capital is seen by many as the principal drawback of the cooperative concept. As the financial contribution to the cooperative enterprise is not rewarded in terms of power (because of the "one member, one vote" rule) or in terms of dividends (because many cooperative laws fix a relatively low maximum rate for interest paid on shares), the individual cooperative member has little motivation to acquire more than the statutorily required number of shares. When it comes to capital formation, cooperatives are therefore clearly at a disadvantage compared to other types of enterprises. The cooperative legislation of several countries has addressed this problem by introducing innovative methods of capital-raising. The 1987 Cooperative Act of Sweden, for example, permits cooperative societies to accept debenture contributions from non-members. Such debenture contributions must not exceed the amount of the ordinary share capital and does not confer voting rights. The 1998 Cooperatives Act of Canada opens the door for several new financing options, including the issuing of investment shares and membership shares without par value (whose value fluctuates according to the cooperative's financial situation). The 1992 Modernizing Cooperatives Act of France permits cooperative members to introduce in the by-laws of their society provisions on non-member investors and for the revaluing of shares through the incorporation of reserves. The 1992 Cooperative Law of Italy limits the voting rights of so-called "financial backer members" to 33 per cent and their presence on the board of directors to 49 per cent.

Cooperative lawmakers must solve the problem of how to satisfy the need for flexible methods of capital formation without departing from cooperative principles. In several countries (for example Germany, Italy, South Africa and partly in France), the "one member, one vote" principle has been softened up or simply abandoned to facilitate capital mobilization. This trend is being actively opposed by many cooperative researchers.

Dispute settlement

Cooperative law in most countries stipulates that disputes between cooperative members and management, between two or more cooperative societies, or between cooperatives and the registration authority ("the Registrar") shall be settled by this very authority. Quite often, the decision of the Registrar is final or, if an appeal against his/her decision is permitted, a final decision is taken by "the Minister", who is usually the immediate superior of the Registrar. Such provisions are hardly compatible with the democratic nature of cooperatives. Several recent cooperative laws contain provisions for the establishment of "cooperative tribunals", "arbitrators" or "conciliation commissions" that act as conciliator, mediator and arbitrator — without, however, preventing the conflicting parties from seeking justice in ordinary courts. Such tribunals may consist of persons with a legal background representing the ministry responsible for cooperatives, the cooperative movement and the High Court. They are not necessarily permanent bodies and may assemble only when need arises.

Structure of the cooperative movement

Cooperative legislation often contains provisions regulating the vertical structure of the cooperative movement by allowing cooperatives to establish higher-level structures in the form of unions, federations and leagues. Ideally, the law simply lays down the basic conditions required for the formation of a secondary or tertiary cooperative and leaves all other details to the by-laws of the new organization. In some countries, however, the law includes restrictive provisions that limit the number of cooperative unions per sector and/or administrative unit, and determines in detail the functions such a union shall (and shall not!) carry out. Other cooperative laws, such as those of Indonesia, Jordan, Lesotho and Sri Lanka (to name but a few examples) establish the national cooperative apex organization by law and thus take away the initiative from the cooperative movement. And, finally, some cooperative laws determine the number of "tiers" in the movement's vertical structure, thus obliging cooperatives to create intermediate structures that are not necessary and not sustainable. Such types of provision negatively affect the competitiveness of cooperatives and are not compatible with a liberal environment.

Responsibility for cooperative support services

The financing and delivery of the principal cooperative support services, i.e. education and training, business advisory services and external audit, is addressed later in this chapter; here we examine only the legal aspects pertaining to these services. In many (especially developing) countries, the State held a *de facto* monopoly over the above support services, which were delivered through the Registrar's office or parastatal agencies such as the JCC (Jordan), the CENAPEC (Côte d'Ivoire), the CPD (Thailand) or the INC (Peru). However, this monopoly was never enshrined in cooperative legislation, with the exception of the responsibility for cooperative audit.

The cooperative laws of many countries oblige cooperatives to have their financial records verified by external auditors once a year or once every two years. This type of provision is not different from ordinary company law. However, cooperative laws frequently stipulate that the external audit of cooperatives is the exclusive domain of the

Registrar/Commissioner of cooperatives, so that cooperatives often do not have the right to hire their own auditors or to establish a cooperatively owned audit organization. These provisions reflect a very paternalistic view of cooperative development, dilute the autonomy of cooperatives and can distort competition. Contemporary legislation therefore only determines the conditions under which external audits must take place and specifies the minimum qualification required from a cooperative auditor, but it leaves it to the cooperatives to find a suitable person or company. In some countries the Registrar remains as "auditor of last resort", in case a cooperative cannot afford the services of a private auditor. In most industrialized countries the statutory audit of cooperatives is now being carried out by institutions belonging to the cooperative movement. In Austria and Germany membership of a cooperative audit association *(Prüfungsverband)* is a prerequisite for registration.

3.4.2. Overarching provisions

Cooperatives should have the right to operate on not less than equal terms than other forms of enterprises. This implies that cooperatives should have access to all advantages and privileges the State might offer to promote enterprises of a certain size, a certain economic sector or a certain geographical region. It does not imply that cooperatives should benefit from specific privileges, because this inevitably leads to the formation of bogus cooperatives whose only objective is to reap the benefits associated with cooperative status. The only exception to this principle is the exemption of taxes on the surplus, because, in a cooperative, the surplus belongs to the members, either as an accumulated reserve that would be distributed in the event of the cooperative's liquidation, or as undistributed bonuses. As such future member income would be subject to income tax at the level of each individual member, it would be unjustified to tax it again at the level of the cooperative society. On the other hand, only cooperatives that derive their surplus from transactions with members should benefit from a corporate income tax exemption; therefore, several cooperative laws set percentage ceilings for non-member business above which no tax exemption is granted.

3.5. Harmonization of cooperative legislation

In recent years, and as a response to globalization and growing competition, the cooperative organizations of several regional economic groupings have made attempts to elaborate model cooperative laws that should guide national cooperative laws of the various member States. This is fully in line with a global trend towards supranational rules and regulations that are thought necessary to control market forces in an ultra-liberal, globalized economic environment.

The cooperative movements of the European Union, for example, have decided to promote a European Cooperative Statute as an alternative to, but coexistent with, the various national laws and aimed specifically at those wishing to conduct business in more than one member State. It is felt that such a Statute would facilitate border area cooperation, bilateral cooperative partnerships and multinational cooperative groups. The Statute is still a draft and has not yet been submitted to the European Parliament.

A similar attempt has been made by the Organization of the Cooperatives of America (OCA) since 1987, when the OCA assembled a group of experts to work out

a framework law for cooperatives in Latin America which was adopted two years later. This framework law was not intended as a model, but as a guideline for national lawmakers. It has become an important tool for the modernization of cooperative legislation in Latin America and has already influenced several national cooperative laws, but its promoters are contemplating an updated version which would take into account socio-economic and political developments of the 1990s. We have already mentioned the Model Law on Cooperatives and Their Associations and Unions which was adopted in December 1997 by the Inter-Parliamentary Assembly of the CIS.

The member States of the West African Monetary Union (UMEAO) have adopted a universal law on savings and credit cooperatives which has already been translated into national legislation by several West African States. Similarly, the 16 member States of the *Organisation de l'harmonisation du droit des affaires en Afrique* (OHADA) organized in March 1999 a regional meeting with the objective of elaborating a model cooperative law. We may finally cite the Referential Cooperatives Act of India [1997], prepared under the leadership of the Cooperative Development Foundation of Hyderabad. Although this legal framework covers only one country, it has played an important role in harmonizing the recent cooperative laws of the numerous federal states of the Indian subcontinent.

4. Cooperative support services

4.1. Introduction

Support services are services provided to strengthen, facilitate and improve the activities of their recipients or users by giving them access to information, goods and financial means which would otherwise not be available or by providing such services at lower cost, at more favourable conditions, of a better quality or in a more reliable way than those available from public providers or on the market. As business undertakings, working in competition with commercial firms, cooperatives can make use of:

- general public support services for enterprises, where such services exist, e.g. information on market data, research results, programmes to promote small and medium-sized enterprises, subsidized credit schemes, training programmes;
- services of commercial providers such as consulting firms, accountants, business schools, etc., offered at commercial rates and usually expensive;
- self-provided support services created jointly by several primary cooperatives at the regional or national level as part of an integrated cooperative system, following the principle of cooperation among cooperatives. The advantage of such cooperative support services is that they are geared to meet the specific needs of cooperatives of a special type or region and that the quality of services can be controlled by the users. The problem of such services is that their cost may exceed the payment capacity of the users and that permanent arrangements to provide such services increase fixed costs for cooperatives and their federations, unions or institutes.

As cooperative organizations tend, at least in their initial stage, to have special features such as local roots, relatively small-scale operations, honorary service of office-bearers and limited financial means that make it impossible to hire expensive specialists

or technicians, they likewise have special needs in terms of support services and have developed special rules according to which such support systems have to be run. This is a strong argument for establishing special cooperative support systems at least in some fields and for insisting that cooperatives themselves maintain and finance them.

The special rules for cooperative support systems are:

- subsidiarity, i.e. only such services should be provided by secondary or tertiary cooperative organizations to primary societies which the primary cooperatives cannot provide themselves at reasonable cost and of the required quality;
- independence, i.e. primary cooperatives making use of support services have to retain their autonomy and independence as social, economic and legal entities, despite their delegation of certain powers and their dependence on certain services rendered by higher-level cooperatives. This does not exclude group discipline in terms of agreements to provide and to make use of certain support services. Independence ceases to exist where primary cooperatives are used by support service providers as conduits for channelling services to individual recipients (e.g. agricultural production or credit schemes using primary cooperatives as distribution and collection channels).

Cooperatives have to decide whether to use public or private commercial services or to build up their own system of support services and whether to establish joint support services at the regional and national level. If, for instance, good quality training of personnel is offered by public trade schools and at favourable prices, there would be no need for cooperatives to establish their own staff training centres.

Criteria for such decisions are:

- the frequency of use of the respective services (e.g. the need of architects for the construction of a warehouse does not justify employing a team of architects at the federation level);
- the special quality of services not available in the market (e.g. performance audit);
- the price (e.g. a tax consultant hired by a federation to serve several primary societies may be cheaper than each cooperative society affiliated to the federation hiring its own).

4.2. Main types of support services required by cooperatives

4.2.1. Education, training and information

The education, training and information of their members, elected representatives, managers and employees and the information of the public — particularly young people and opinion leaders — about the nature and benefits of working together the cooperative way are basic principles of cooperation.

However, because the education, training and information of these target groups entail higher costs than cooperatives can cover, public support services in these fields are of crucial importance for the success of cooperative organizations at all levels.

The education of members, although essential for mobilizing the active participation, commitment and solidarity of members with regard to their cooperative society, is often neglected in cooperative training facilities, which tend to cater mainly for the

training needs of managers and employees. The inclusion of cooperative subjects in school, high-school and university curricula could provide indirect public support, which would be useful both to inform prospective members about cooperatives and to provide basic education regarding the rules of democratic decision-making and the exercise of democratic control.

Cooperative federations and unions at the regional or national level can support member education by providing teaching aids and self-study material to their member societies or to the public. There is ample evidence that cooperatives which place high emphasis on member education (e.g. credit unions) are more successful than cooperatives with an uninformed membership. It must be stressed that without a commitment to make members aware of the benefits that can be derived from cooperatives by education, cooperatives cannot expect their members to be committed to group solidarity and to their cooperative.

The education of elected representatives (office-bearers) is rarely provided either by public or by commercial services. Accordingly, support services in this field have to be provided by cooperative training centres at the regional level, though this is often neglected because of the large number of persons to be educated, their relatively short terms of office and the high cost without immediate return.

The education and training of managers and employees has to be looked at from two angles. As far as the technical, vocational training of this group of persons is concerned, public, commercial and cooperative support services can be used. On the other hand, however, education in cooperative values and principles can only be offered by cooperative education and training facilities, i.e. centres, institutes or schools run by the cooperative movement.

Experience has shown that even in cooperative training centres, the main emphasis is placed on technical and vocational training, following similar objectives and curricula as public or commercial trade schools or centres for business training; eduction in the concept of cooperation, its goals, principles and underlying values tends to be neglected. Support services in this field have to focus first of all on the training of qualified trainers who are familiar with the special features of cooperatives and disseminate their knowledge.

4.2.2. Advice, consultancy services

Two forms of services need to be distinguished:

- advice and consultancy in general cooperative matters;
- advice and consultancy in the fields of organization, management, accounting, finance, technology, and legal and tax matters.

Services supporting primary cooperatives in their policy orientation, the elaboration of their own corporate identity and the design of their development strategies can only come from within the cooperative movement, i.e. from federations, unions or confederations at the regional, national or international level.

Technical support services are offered by the public authorities, by private consultants or by cooperative movement facilities. Often, the services of private consultants can be obtained at more favourable conditions if negotiated by federations or unions rather than by individual societies. As far as the codes of conduct of the respective

professions permit, cooperatives, federations or unions can employ their own consultants to protect the interests of their member societies. Otherwise (e.g. in the case of auditors, lawyers, tax consultants), special agreements can be made between private firms and groups of cooperatives (e.g. the Integrated Cooperative Audit Service (INCAS) in the Philippines).

4.2.3. Central (pooled) services

Whenever well-paid specialists or expensive modern equipment are required, which primary cooperatives cannot afford, or where services are needed only occasionally, or where better quality services can be offered at a lower cost or with more expertise when provided jointly, there is a case for pooling services at the regional or national level. This includes bookkeeping, accounting, electronic data processing, which could be outsourced to a central unit, staff selection, sharing of staff (part-time arrangements), introduction of unified approaches to management and technical issues, advertising and public relations, interest representation, lobbying, insurance (savings through package agreements with insurance providers), pooling of savings or assets in central funds, financial and property management, information on market data, new production methods, technological innovations, etc.

Audit

External audit is a special case where central services are useful for cooperatives. In many countries this is a statutory function of a government service (India, Malaysia), while in others it is the task either of cooperative federations providing specially trained cooperative auditors (Austria, Germany) or of certified public accountants (United Kingdom). Elsewhere (Italy, Philippines) cooperatives may decide to organize their external audit in one way or another.

While free audit by government auditors is a valuable support service, it can also be a disadvantage, if the auditors are not sufficiently trained or equipped to carry out this task (e.g. in some countries of East and Central Africa), or where the fact that audit advice and guidance is in the hands of one government service is tantamount to direct interference in the organizational management of the cooperatives (Kenya).

Furthermore, the external audit of cooperatives has to go beyond mere financial audit and should include a performance audit of management and an assessment of the effectiveness of the cooperatives (material audit). Such audit can only be performed by specially trained auditors familiar with the peculiar problems of measuring the efficiency of user/member-driven organizations. Accordingly, cooperative external audit support services have to take this aspect into account by having an independent team of government auditors (Thailand), or a team of private auditors specialized in cooperative audit (Philippines), or cooperative audit federations (Germany, Indonesia).

Another special case justifying central support services is for bulk purchasing, wholesale buying and importing and exporting, where the size, number and collective bargaining power of cooperatives can be put to the fullest advantage. Such services are among the main reasons for forming or joining cooperatives or cooperative networks. Where cooperatives are composed of small and medium-scale producers of goods and services, agreements among the producers to purchase all their inputs from and to deliver all their products to their joint organization and to determine prices and conditions

usually do not constitute contracts in restraint of trade and therefore are allowed under competition law, especially in the case of agricultural producers. However, where the State or commercial firms hold monopolies to import and distribute inputs or to purchase and export products, as was the case in many developing countries before structural adjustment and in many countries in transition during the communist regime, cooperatives are barred from organizing such central services themselves and are thereby excluded from the most lucrative income-generating activities on behalf of their members. The same applies to pooled savings, funds and property in central cooperative finance institutions or cooperative banks, whereby primary cooperatives deposit their savings or pool their assets under central financial and property management for the benefit of affiliated societies and their members. Such central services are of particular importance for savings and credit cooperatives and credit unions which need facilities for the safe and profitable deposit of their surplus funds and to balance the demand for savings and loans, as well as for housing cooperatives and their federations or unions (land acquisition, banking, negotiations with bankers, etc.).

4.2.4. Research

Research which is only effective if carried out over long periods and which only very large cooperatives can afford to finance on their own (e.g. Japanese consumer cooperatives) has to be provided through public support services (universities or specialized research institutes) or by commercial centres for applied research. In countries with a well-developed and relatively wealthy cooperative movement, special cooperative research centres at universities can be supported by contributions or donations (e.g. Germany) or can be run in partnership between cooperative federations and unions and commercial firms (in the case of housing cooperatives; for example, such research may cover the design and technology of low-cost building, energy efficiency, quality control of construction materials). In developing countries, such research partnerships exist between cooperative apex organizations and external donors of technical assistance.

4.3. Industrialized countries, countries in transition and developing countries

4.3.1. Industrialized countries

Policy-makers in industrialized countries commonly see cooperatives either as a special form of private business organization, or as part of a "third sector" of the economy .

Where cooperatives are seen as private business organizations, direct support services are the exception rather than the rule. Cooperatives may benefit from indirect support services offered to all business undertakings alike, for example:

- programmes for starting new enterprises (start-up or venture capital, subsidized feasibility studies);
- export promotion facilities;
- access to a suitable legal framework;
- services to promote enterprises in special branches of business (e.g. agriculture, production and use of alternative energy sources);

- public information systems (e.g. markets and prices) and services provided by semi-public institutions such as chambers of commerce, industry, handicrafts, agriculture;
- public education and training facilities and research results.

Some direct cooperative support services are offered in exceptional cases or for special purposes:

- audit services by government auditors parallel with cooperative audit systems (Cyprus, Italy);
- restructuring of cooperatives by means of amalgamation (Japan).

In most other areas, cooperatives have to decide whether to buy the respective services on the market or to organize their own support services, for example:

- central bookkeeping and electronic data processing for primary cooperatives at the regional level, audit services with specially trained auditors (Austria, Germany);
- cooperative training centres mainly for vocational and technical staff training;
- central services within an integrated cooperative system;
- cooperative research centres or institutes, sometimes in partnership with government (Australia).

Where cooperatives are perceived as being part of a *third* sector of the economy (*économie sociale*), often a variety of direct support services are offered, for example:

- special research grants;
- access to advice from business promoters or incubators;
- access to soft loans and grants;
- access to public works contracts;
- opportunities for public cooperative partnership (e.g. community cooperatives in the United Kingdom).

For these purposes either special organizations or funds are established (France, United Kingdom) or existing cooperative federations or unions are reimbursed in part for their expenditure (Italy, Japan).

4.3.2. Countries in transition

In countries in transition the issue of cooperative support systems has to be studied against the background of the communist past.

Under the communist regime, cooperatives in the form of collectives or consumer or housing cooperatives were part of a highly politicized, state-controlled system within a centrally planned economy, in which the State had the monopoly in trading and banking. Support services for the communist collectives were part of this centrally planned system, and cooperatives were used to implement centrally made plans.

With the introduction of elements of a market economy in the form of liberalization and privatization of economic activities, the main task has been to depoliticize and decentralize the cooperative system and to reorganize the entire structure, most of all

by generating an awareness among members, office-bearers, employees, government staff and policy-makers that cooperatives are part of the private sector or belong to a special, third sector. It has been necessary to train trainers who can offer the training needed to acquire the new management and entrepreneurial skills that are needed to survive in the new environment.

In some countries attempts have been made to reorient the existing cooperative support structures to fit the needs of a market economy (Hungary, the Russian Federation), while in others the old communist structures have been totally destroyed to make a new start (Poland and the former German Democratic Republic). For lack of qualified staff conversant with the requirements of cooperatives in the new economic, political and legal environment, there has been a heavy dependence on foreign consultants and advisers, who themselves have not always been familiar with cooperative issues and with local conditions. During the formation process many collectives were split up (Czech Republic) and transformed into companies (the Baltic States) while others remained largely unchanged (the Russian Federation). After transformation, most cooperatives were too weak to build up and finance their own support systems. Administrative structures not immediately affected by the economic transformation process continued to operate as during the communist regime and to support or impede the development of "new" cooperatives. Furthermore, many of the office-bearers and functionaries of the old communist cooperative support structures remained in office or were re-elected into office, making the mental transformation of communist collectives into market-oriented cooperatives more difficult. In the long run, independent public support services and cooperative-owned support services will have to be developed along the lines of those existing in industrialized countries.

4.3.3. Developing countries

In most of the developing countries cooperative structures, and in particular cooperative support services, are still influenced by their colonial past, when government control and government support turned cooperatives into development tools in the hands of government.

Over-promotion and over-intervention made cooperatives dependent on government aid and prevented them from building up their own support services. Cooperatives were not supposed to become autonomous enterprises expanding their operations into income-generating activities such as importing, marketing, processing and exporting, especially of cash crops. After independence, many cooperatives were created artificially under government programmes or by non-governmental organizations mainly to serve as forums for dissemination of information or as conduits for development aid. Even today, powerful, autonomous cooperatives are looked at by governments with suspicion, especially when they group together to form their own support structures and to defend their interests.

In the course of structural adjustment, during the phase of decentralization and the liberalization of markets, cooperatives have been given the chance to expand as genuine self-help organizations and to make arrangements for support services which benefit primary cooperatives and their members.

However, in many countries cooperatives are caught in a vicious circle. After decades of external supervision and control, they are too weak to build up their own

support structures. They therefore continue to rely on external support (from government, donors of technical aid or NGOs), and this prevents them from developing the required entrepreneurial spirit and skills.

The situation is exacerbated where the public or external support services are of poor quality, as cooperatives still tend not to make the effort to develop their own support services.

Education and training

The most urgent need is for education and training for cooperative members, elected representatives, managers and employees. The existing cooperative training centres, which work mainly with external aid, are insufficient for various reasons:

- they usually concentrate on training of employees, while member education remains neglected;
- they are usually understaffed and underequipped;
- cooperatives are often unable to recruit or retain well-trained employees, because of low salaries and limited chances of promotion.

While cooperatives could make efforts to build up modest training centres of their own, the only long-term solution to this problem is to provide independent public support services, e.g. by producing suitable text books and by including cooperative subjects in the curricula of public schools, training centres and universities. There are positive examples of this in West Africa (Benin, Burkina Faso, Senegal) where general literacy courses are used as a means of improving members' education.

Advice and consultancy services

When governments are phasing out support for cooperative development, cooperatives have either to build up their own support structures (federations and unions) so as to provide access to competent and non-biased advice, or to buy into services on the private market. For a limited period such services may be offered by NGOs (e.g. SOCODEVI in Côte d'Ivoire), but in the long run advice and consultancy have to be offered by support structures within the cooperative movement.

Central services

This is one area where the establishment of joint support services can result in income generation. Such services have to be built up from the bottom, sometimes against competition from public, semi-public or commercial operations. This is an area, where structural adjustment, liberalization of markets and the decline in state intervention offer cooperatives real and immediate opportunities to develop their own self-help programmes. Efficient central supply, processing and marketing organizations can become the backbone of a strong and independent cooperative movement. In this field, international cooperation among cooperatives is required (cf. the plans to establish a cooperative commodity exchange in West Africa, promoted by the ICA Regional Office for West Africa in Ouagadougou).

In the long run, cooperatives in developing countries will have to establish the full range of their own central services.

Research institutions

Cooperative organizations in developing countries need access both to organizational and management research and to technological innovations. However, because they may for a long time not be in a position to establish their own research centres, they may have to depend on support services organized and financed out of public or external funds.

The most frequent mistake in promoting cooperative support services by means of public or external aid is to opt for oversized, high-cost organizations (cooperative colleges, cooperative service centres, consulting services) which tend to collapse when public or external aid comes to an end, and whose operating costs are too high for them to become self-financed within the cooperative movement.

Another frequent mistake is to concentrate on providing staff and employee training that turns out people who are more qualified than the cooperative organizations can afford to hire. The long-term, unspectacular human resources development approach aimed at member awareness and member education, with the goal of strengthening the local units that form the basis of a sound cooperative movement, is usually neglected. One of the secrets of success of the credit union movement in many countries all over the world is the insistence on member education and leadership training as a requirement before the start of savings and lending operations. For the past several years, the ICA Regional Office for West Africa has systematically supported such local initiatives by offering seed money for the training and employment of local promoters, low-cost field organizers and local teachers for functional literacy programmes.

Where the aim is to encourage the development of independent, self-reliant and autonomous cooperatives, this aspect has to be taken into account when planning and operating direct external cooperative support services. Provision should always be made for gradually phasing out external aid, while at the same time systematically phasing in support services funded by the cooperative movement or by other neutral sources (e.g. foundations). Experience has shown that the planned phasing out of external aid and phasing in of cooperative organizations is difficult to achieve and needs clear vision and strong determination on the part both of the donor and of the recipient.

4.4. Best practice in cooperative development

Projects involving support to cooperatives, whether in the home country or as part of the international development effort, can be assessed against a set of guidelines which, if carefully followed, will help to ensure that such projects have a positive outcome and a much greater chance of success. The following points should be considered for inclusion within such guidelines:

- Willingness to cooperate is essential. Projects need to be based upon the participants' demonstrated ability to cooperate; no purely "top-down" projects should be supported. Projects should not be primarily based upon the agenda of the donor agency or implementing agency; the cooperatives' membership must be involved at the project design stage.

- Financial commitment needs to be demonstrated. Any financial assistance provided ought to be matched, at least to an extent that signifies real commitment, by funds secured directly from the participants. Any financial or material assistance should always be accompanied by appropriate human resource development. Assets should not be provided that cannot be replaced out of income when this becomes necessary. Schemes that simply provide credit or handouts cannot be counted as self-help initiatives.
- Human resource development is a priority. The focus of assistance to cooperatives will be mainly on developing human resources. It should be recognized that sound systems of governance are key to the success of cooperatives, and solid investment in developing their leadership capacity is essential. It should be understood that training needs to be provided to three distinct client groups: namely, ordinary members, members' representatives/leaders, and managers and employees. Training provided to managers and employees must include elements that secure their full understanding of its purpose. This should be balanced by training provided to members' representatives charged with providing leadership to the organization (otherwise the power and influence of managers and staff can soon expand to a point where the members' control is effectively usurped). Training should be provided primarily by means of coaching and on-the-spot programmes; it is most damaging to the development of cooperatives to remove their key leaders and managers for long-term training unless adequate replacements are available. Local leaders sent on long-term training programmes seldom return to their former base organizations. Academic institutions should be discouraged from seeking to fill places on their long-term courses by recruiting students from cooperatives.
- Leadership in cooperatives usually benefits substantially from having access to first-hand experience of similar ventures and short, intensive, well-designed study/visit programmes combined with tutorial inputs. Study programmes involving visits to successful ventures in their own country or region are often the most valuable. These activities will frequently have much more positive impact than programmes relying upon more formal training courses.
- Withdrawal strategy needs to be built into all cooperative development projects at the design stage. This should include provision for switching from direct technical assistance to a scheme for providing advice and guidance on a continuing basis. Such ongoing advice will, in most cases, be best provided through partnership arrangements with established cooperatives or related bodies.
- Managers should always report to members' representatives. Any management personnel provided to support cooperatives should be answerable in the first place to the members' leaders and should not be merely seconded from government. Any subsidized management assistance should be provided on a tapering basis, so that sustainability can be achieved within an agreed time frame.
- Impact at the primary (grass-roots) level should be measurable. Proposals for support to secondary or tertiary level cooperatives should be approached with great caution. Premature development of such organizations can add unnecessary costs and bureaucracy to the primary level cooperatives and can result in loss of capacity to respond to the needs of the base communities. Nevertheless, projects for expanding the scale of operations can be important in terms of exercising increased

economic power on behalf of the disadvantaged. It is important that secondary and tertiary organizations are driven by the real needs of their grass-roots membership and do, in fact, enhance the benefits delivered at the primary level.

- Relevant experience is a prerequisite. Projects designed to support the development of cooperatives should be undertaken only by specialist personnel and organizations.
- Those implementing projects need to be aware of, and have access to, the wealth of prior experience that may be available. Generally speaking, such expertise is not to be found in commercial consultancy firms. A "third way" of dealing with projects for the support of cooperatives needs to be established whereby support is sought in the first place from organizations that have direct experience of and links to cooperative structures.
- Cooperatives are not charities — they exist to serve their own members. While most do accept a wider responsibility within the community, they should not be expected to provide free services. While cooperatives may often be willing to provide advice, training or other services, the full cost will in most cases need to be recovered.

5. The role of the social partners

5.1. Employers' organizations

Cooperatives differ from the investor-owned companies that make up most of the membership of employers' organizations, primarily in terms of their ownership structure and in the way that they distribute profits. Cooperative enterprise is a joint activity undertaken for the mutual benefit of its members and is based on a democratic system in which the members should be in control. Cooperatives exist to render services to their members rather than to maximize profits and ownership is in the hands of those who receive the services that they provide. The overriding purpose is **not** the achievement of shareholder value but to deliver real benefits to their members.

At the same time, cooperatives are an integral part of the private sector and have to be accepted as members of the business community. In many countries cooperatives rank among the most important employers and are often members of national employers' associations. As employers, they frequently share common interests with non-cooperative enterprises in terms of their relations with their employees and in many aspects of the employers' organization's relations with governmental bodies.

By promoting business links between cooperatives and other forms of enterprise, employers' organizations can contribute to the development of the private sector. Large cooperatives (for example, Crédit Agricole (France) with a turnover of US$32.3 billion and Norinchukin Bank (Japan) with US$24.6 billion) are obviously attractive partners for all forms of businesses. However, a diverse range of cooperatives may also be of particular interest to many private companies, since they are able to carry out successfully certain economic operations that other types of enterprise might regard as unprofitable or are just not structured to provide. Savings and credit cooperatives, for example, mobilize small amounts of individual savings in rural areas (e.g. rural credit unions in many parts of the world) and often deposit them in bulk in commercial banks and em-

ployees' savings and loan facilities for large concerns (e.g. the British Airways and World Bank staff credit unions). Most major supermarket companies depend upon farmers' cooperatives to supply much of the fresh produce to the high quality standards they require. Many of the members of employers' organizations are also members of marketing and service cooperatives, even though they may not all be registered under national cooperative laws (e.g. Interflora, the florists' cooperative based in New Zealand, Best Western Hotels for independent hotel owners, the Visa credit card operation and the Link ATM operations for financial institutions). These are cooperatives whose members are other businesses or public entities which join together to increase their performance and competitiveness. Members of such cooperatives have found that, by pooling their purchasing power to acquire goods and services, they can lower their operating costs. Further examples of shared service cooperatives include VEDES and EDEKA in Germany, Nugget Distributors in the United States and Les Mousquetaires in France. These cooperatives were founded by independent shop or hotel owners who wanted to realize economies of scale and enhance their bargaining power through bulk purchases of consumer goods or the joint organization of tourism services. Employers' organizations, in their own right, may also promote the formation of purchasing or shared services cooperatives where appropriate.

The Kampala shoeshiners' cooperative in Uganda and the taxi cooperatives of Australia, Jamaica, New Zealand, Zimbabwe and many other countries are essentially cooperatives of entrepreneurs. Thousands of such cooperatives throughout the world support SMEs as well as individual entrepreneurs.

Employers' organizations can and do encourage the formation of cooperatives at the workplace for specific purposes, such as savings and credit, low-cost housing, consumer goods distribution, childcare and health insurance. By helping workers to organize themselves to provide the services that they need, cooperatives can not only improve the quality of life for their employees but can allow employers to use their own resources which are allocated to the provision of social service more efficiently and selectively. In addition, employers can build stronger bonds between their workers and the employing organization. The promotion of cooperatives at the workplace can provide the means of increasing job satisfaction and fostering good industrial relations. Many of the types of cooperative mentioned above can be of particular interest to companies that employ a large, semi-skilled or unskilled labour force, such as on industrial plantations, in textile industries or in mining companies. Examples are the housing cooperatives promoted by the SOCAPALM company (palm oil plantation) in Cameroon, the credit union established by the employees of the Selebi Phikwe diamond mine in Botswana, the cooperative consumer shops run by coalminers in Germany, and the childcare centres operated by Russian railway workers.

Employers' organizations may contribute to the promotion of cooperatives by making support services available in the fields of enterprise development, such as information, education and training, management consultancy and related services. Employers' organizations may also assist micro-entrepreneurs in the informal sector to enhance their competitiveness and profitability and to acquire formal recognition through the establishment of cooperatives.

Employers' organizations may further participate, together with workers' organizations and other interest groups, in works councils, task forces and other bodies established at the central and local level to deal with issues that have an impact on the cooperative sector.

5.2. Workers' organizations

Workers' organizations and mutual forms of cooperatives have traditionally shared common goals and objectives, and in some countries a common history and even related organizational structures. Both workers' organizations and such cooperatives are based on self-help, democratic organization, mutual aid and solidarity. They aim to solve their members' problems through group action. In many European countries both the trade union and cooperative movements had similar origins, in the wake of the social and economic upheavals brought about by the Industrial Revolution. However, the strategies utilized by workers' organizations and cooperatives are fundamentally different; in general, workers' organizations try to improve their members' standard of living and quality of life through negotiations, collective bargaining and grievance handling, while cooperatives establish joint business enterprises to provide common economic and social services such as the supply of consumer goods, savings and credit, marketing channels, etc.

By promoting cooperatives, workers' organizations help to advance the broad interests of their members. For example, consumer cooperatives that promote the sale of good quality products at reasonable prices directly benefit lower-income families. Likewise, housing cooperatives can assist in the provision of good quality low-cost accommodation. Savings and credit cooperatives enable workers to save regularly and obtain loans at reasonable interest rates. Insurance, health and social welfare cooperatives all benefit workers and their families.

A significant example of trade union cooperative action is to be found in Singapore, where the National Trade Union Congress (NTUC) has initiated a significant network of cooperatives, including the NTUC fair price consumers' cooperative, the NTUC income insurance cooperative, the NTUC health-care cooperative and the NTUC childcare cooperative. In Kenya most national trade unions support savings and credit cooperatives and have contributed to the establishment of the National Cooperative Housing Union (NACHU). In Turkey, the largest trade union federation (TÜRK-IŞ) and its affiliates established consumer cooperatives (YOL-KOOP) and housing cooperative unions (KENT-KOOP) in the 1970s and 80s.

In the Philippines[1] it is estimated that there are some 3,000 cooperatives initiated by trade unions, including, for example, the LEAD-CO-TUCP which was established by the Trades Union Congress of the Philippines (TUCP) to improve the lives of families living in a depressed coastal community called Dagat-dagatan in Caloocan City. It provides assistance to members to acquire home lots, legalize their electrical power supply and rehabilitate their water supply. A further example is the Phelps Dodge Philippines Multi-Purpose Cooperative (PDP-KBMC), which provides canteen and catering services, savings and credit and consumer goods through joint union-management action.

A challenging aspect of cooperative action by workers' organizations is in the area of workers' buy-outs of failing state or private enterprises. In the United Kingdom[2] the Wales Cooperative Centre was established by the Wales Trade Union Congress in 1983 to assist workers form new enterprises in the face of redundancy and privatization. In the Philippines[3] the KASUCO Workers' Agricultural Cooperative Inc. (KWACI) was organized in 1991 by the beneficiaries of an agrarian reform programme and represents a buy-out by sugar company workers, facilitated by the National Congress of Unions in the Sugar Industry of the Philippines (NACUSIP).

The South African National Union of Mineworkers (NUM) has promoted some 30 cooperatives for retrenched and retired miners. They are active in agriculture, horticulture, brick-making, poultry-raising and so on. The NUM considers cooperatives as a more advanced element within its overall employment promotion strategy.[4]

Workers' organizations may participate financially in the establishment of cooperative enterprises. In Singapore trade unions are the main shareholders in NTUC cooperatives. The Ghana Trades Union Congress (GTUC) has established a fund financed out of members' contributions for the establishment of cooperative and other types of enterprises by trade union members. The Danish labour movement's Workers' Cooperative Financing Fund is another case in point, as is the Unity Trust Bank, a joint venture of the United Kingdom's Cooperative Bank and British trade unions.

Workers' organizations may provide information, assistance, education and training to members wishing to establish cooperatives. Negotiating with employers to ensure check-off facilities for savings and credit or insurance cooperatives may be a useful service that trade unions can provide. Workers' organizations may also assist workers in the informal sector to establish and develop their own cooperatives as a means of improving their working conditions and increasing their income.

As noted earlier, workers' organizations may participate, together with employers' organizations and other interest groups, in works councils, task forces and other bodies established at the central and local level to deal with issues that have an impact on the cooperative sector.

It could be of special interest for cooperative movements and trade union organizations to develop joint strategies for raising income and ensuring job security and social protection of informal sector workers. This could include cooperative organizations for homeworkers, street vendors and casual labourers. At the organizational level cooperatives and trade unions could undertake joint training of each other's elected officials, develop joint training programmes and materials for members and develop joint financial services for their members such as savings, loans, insurance and pensions.

5.3. Cooperative movement

The creation of favourable conditions for cooperative development should not be solely an internal phenomenon. The cooperative movement, with its organizations at various levels that are directly involved in economic activities, can itself influence the environment in which it operates for its own benefit. Ultimately, the success of any strategy or programme for cooperative development hinges on the commitment, efforts and leadership qualities of the members, managers, staffs and directors, who are directly involved in the work and activities of the cooperative.

The first aim of cooperatives and cooperators in the past has been essentially that their enterprises become successful businesses that are able to promote their members' interests. Once this goal has been achieved, cooperative movements have often influenced government policies and programmes. The Japanese agricultural cooperative movement, for example, has successfully contained threats arising out of more liberalized agricultural imports, and the sugar cooperatives in India have been major actors in public policy formulation in the country's sugar industry.

The new approach of participative cooperative policy formulation, initiated by the ILO under its COOPREFORM programme, has strongly contributed to the involvement of cooperative movements in policy and law-making. Such examples show that in order to hasten the process of cooperative development, cooperatives themselves must first be actively involved, before they seek external help. It should not be overlooked that the external partner (government, trade unions, etc.) which they will be bargaining with may not be enthusiastic about plans to turn cooperatives into powerful economic — and thereby eventually also political — forces beyond government control.

Primary cooperative societies can bring about a variety of changes in the immediate environment: innovation, organization, administration, decision-making, technology. They are often the only institutions fulfilling such important functions as the supply of consumer goods or the provision of savings and credit facilities. And they can form a strong counterpart to local monopolies, thus increasing competition, improving the price situation and providing access to new markets.

Some secondary and tertiary societies as well as apex organizations in some countries have developed into strong and powerful institutions (e.g. *Caisses Desjardin* in Canada, *Raiffeissen-Genossenschaft* in Germany, the credit union league of Cameroon, the national union of agricultural cooperatives in Senegal). Such apex organizations are in a good position to influence cooperative development policies at the regional and national level. By creating an effective cooperative movement, they reduce the dependency on state-sponsored cooperative promotion programmes.

6. Structural change within cooperatives

6.1. General considerations

According to their own principles, cooperatives count on *cooperation* rather than competition among themselves. In times of far-reaching political and economic change and global markets, the scope of this principle has reached a new dimension. Cooperation among cooperatives cannot remain restricted to regional or national boundaries but has to be built across national borders. While commercial firms usually follow the rule "grow or perish", the typically cooperative answer to increasing competition and to the challenges of globalization is horizontal and vertical integration, which allows basic units of the integrated system (primary cooperative societies) to remain independent entities operating close to their members, while carrying out functions which can be performed better or at reduced cost by several cooperatives working together in a joint undertaking or delegating such functions to higher level units of the system. Integration allows cooperatives to combine their strength as locally rooted organizations with the advantages of large-scale enterprise.

6.2. Two forms of integration

6.2.1. Horizontal integration

Horizontal integration, i.e. collaboration of cooperatives operating at the same level of organization (e.g. among primary cooperatives or among unions), can take

different forms and degrees of intensity. It may be in the form of an ad hoc working group, where cooperatives work together for the completion of a specific task or project (e.g. several housing cooperatives developing a large parcel of land, or a consortium of construction cooperatives applying together for a project too large for one cooperative alone), or of a joint undertaking or organization, in which several primary cooperatives establish a joint subsidiary to perform special services for them (e.g. several agricultural cooperatives establishing a joint mill, processing plant or packing station; the Mashbir Group in Israel, held and managed by the Hamashbir Investment Company, whose shares are wholly owned by Hamashbir Hamerkazi, a cooperative society belonging to some 600 kibbutzim and moshavim; several housing cooperatives forming an association to cater for the needs of the elderly among their members).

Horizontal integration may also take the form of amalgamation by transfer, with one or several cooperatives transferring their operations and assets to receiving cooperatives (often to save weak societies from bankruptcy), or amalgamation by creating a new cooperative, where two or more cooperatives merge to reduce costs, to enter into new fields of business or to strengthen their position vis-à-vis their competitors.

6.2.2. Vertical integration

Vertical integration means building up a system with forward and backward linkages, consisting of basic units (primary cooperatives) and higher level units (federations, unions) with a leading unit or apex organization at the top. The number of tiers of an integrated system depends on the size and number of primary cooperatives, their fields of activity and their areas of operation and, ultimately, on need and on cost. In integrated systems of cooperatives two types of higher-level organizations can be distinguished:

- Organizations providing a "representational" and leadership function, in particular acting as preservers and defenders of cooperative values, i.e. organizations performing non-economic support services such as education and training, advice and consultancy, bookkeeping and electronic data processing, auditing, advertising, interest representation and advocacy. Such organizations can take the legal form of associations, non-profit organizations or cooperative societies; they are referred to in some countries as federations, in others as unions.
- Economic centres, i.e. jointly financed, patronized and controlled enterprises in the legal form of cooperative societies or companies, which are established to pool resources (products, savings), to engage in bulk purchasing, wholesaling, importing and exporting on behalf of the affiliated primary or secondary cooperatives, to reduce transaction costs, to penetrate new markets, to benefit from economies of scale, to build up countervailing power, to guarantee loans, to arrange for insurance package deals, etc. Kobe of Japan, for example, has established K-net, a buying network, together with 12 cooperatives in western Japan, in order to strengthen its buying power.

Depending on the circumstances prevailing in a country, "representational" and economic centres may be separate organizations (e.g. Germany, United Kingdom) or be combined in a single organization (e.g. Iceland).

6.3. Typical features of cooperative integration

If the ICA's cooperative principles and their underlying values are subscribed to, they should be reflected within cooperative integrated structures. The ideal form of organization should therefore be voluntary, democratic and independent, i.e. self-supporting, and autonomous. From this follows the principle of subsidiarity, which means that the basic level units (usually primary cooperative societies) are the source of strength and the dominating force within the system (bottom-up structure) and that only such functions are performed by the higher-level units as cannot be performed better or at lower cost by the lower-level units. Furthermore, the higher-level units have to respect the autonomy of the lower-level units, must support and promote the lower-level units and must not enter into competition with them.

However, it also needs to be recognized that many joint ventures involving cooperatives take the form of share-ownership companies, or subsidiary companies of various kinds. Such company structures are normally subject to the overall control of the cooperatives that own them, and therefore operate under the direction of the member-owned governance structure. For example, the United Kingdom's Cooperative Bank is a subsidiary of the Cooperative Wholesale Society, the Swedish consumers' cooperative central organization KF operates several jointly owned companies along with other cooperatives from neighbouring countries in Scandinavia, and many major agricultural cooperatives own subsidiary companies that operate food-processing facilities or process and distribute value added food products in overseas markets.

6.4. Important issues relating to integrated systems of cooperatives

6.4.1. Legally prescribed or freely formed integrated systems

An important issue is whether the number of tiers of the organizational set-up of vertically integrated systems of cooperatives should be prescribed by law (as in Côte d'Ivoire, Mauritius, Nigeria). Such provisions are in conflict with general cooperative principles and usually have the effect of imposing structures upon cooperatives without regard to current needs and irrespective of their willingness and capacity to finance such structures. A better solution may be to give cooperatives the right to federate and to chose the most suitable vertical structure under prevailing economic, social and political conditions, with the possibility of adjusting it to changing circumstances.

Voluntary or compulsory affiliation

According to international cooperative principles it is beyond doubt that affiliation to cooperative integrated systems should be voluntary. Yet in many countries cooperative legislation prescribes that every registered cooperative has to be affiliated to a cooperative federation, union or apex organization. Compulsory membership of secondary societies was the rule in communist countries: this rule was abolished after the transition to a market economy. It can still be found in some developing countries and also in some industrialized countries, where it is argued that primary societies working in isolation have a limited chance of success and that membership in an integrated cooperative system is essential for the sound development of primary cooperatives. In Germany affiliation to a cooperative auditing federation has been made a legal require-

ment for registration as a cooperative society. Combined with the statutory obligation of annual or biannual audit and the exclusive right of auditing federations to carry out such audit, every registered cooperative is not only compelled to join the integrated system when choosing this legal form, but is also subject to comprehensive cooperative audit (including performance audit) and advice for which substantial audit fees are charged. In Germany this arrangement is considered to be instrumental for the success of the cooperative movement.

Another means to bring about strong integrated systems, albeit without compulsory membership, is to establish a central cooperative fund to which every registered cooperative society has to contribute a certain percentage of its annual net surplus, and to use this central fund to finance the operations of the cooperative apex organization (e.g. Malta, Singapore).

One or several national apex organizations

Another issue with regard to integrated systems of cooperatives is whether there should be one or several national apex organizations in one country. Where one cooperative apex organization is prescribed and its objectives are laid down in cooperative law (e.g. Indonesia, Singapore, Thailand), there is the danger of the apex turning into a bureaucratic machine instead of being a dynamic advocacy organization, propagating new ideas and technologies among member organizations and representing the interests of the cooperative movement vis-à-vis government and the general public. This danger is even greater when legally prescribed national apex organizations are not funded by their affiliates (because they are unable or unwilling to pay the required dues and fees) but depend on government subsidies or foreign donors.

According to the concept of cooperation it should be sufficient to give cooperative societies the right to federate and to leave it to the different branches of the national cooperative movement whether to have one or more national apex organizations (as in the Philippines and in most countries of Europe). Where several national apex organizations exist, this does not exclude joint activities such as interest representation vis-à-vis government on issues affecting all cooperatives (legislation, taxation, economic policy). This can be done by forming an ad hoc committee or a standing committee with the chairmanship rotating biannually from one national apex to another (e.g. *Freier Ausschuß der deutschen Genossenschaftsverbände* in Germany), or a small joint organization with only a skeleton staff (e.g. GNC in France).

6.5. Relationship between government and integrated systems of cooperatives

6.5.1. Industrialized countries

In industrialized countries cooperatives have a long tradition as autonomous and private self-help organizations. All business organizations, including cooperatives, have reacted to the increasing competitive pressure of the global market by amalgamation. While this strategy appears to have been largely successful in the case of agricultural cooperatives, retail traders' cooperatives and cooperative banks, several large systems of consumer cooperatives have collapsed in Austria, Belgium, France and the Netherlands during the last two decades; in 1998 the largest consumer cooperative in Germany, Coop Dortmund-Kassel eG, had to be dissolved.

Government influence on cooperative federations, unions and apex organizations is usually restricted to setting general rules for their operations, mainly in cooperative law, the law of associations and competition law.

Where cooperatives are promoted by government because of their contributions to economic and social development, special organizations may be created in which government and cooperatives work together as partners for achieving jointly agreed objectives (e.g. IDES and FIDES in France, CDAs in the United Kingdom).

As representatives of the cooperative movement, cooperative apex organizations are usually associated with the formulation of policies and legislation affecting cooperatives. This is done either by giving them a voice in consultative bodies (e.g. Economic and Social Committee of the European Union) or by establishing a national cooperative council with government and cooperative movement participation (e.g. Belgium, France).

Integrated cooperative banking systems are subject to special conditions because the law requires each cooperative bank to comply with standards of equity capital, liquidity, deposit guarantees and prudential supervision. Within the European Union strict standards have to be met, and cooperative banks in Member States have reacted differently to this challenge. While in Germany primary cooperative banks meet the requirements by way of amalgamation, turning the former small rural Raiffeisen banks and the urban people's banks into regional banks, in the Netherlands the Rabobank has established a cooperative banking group which is composed of local cooperative banks with some degree of autonomy but is under the leadership and prudential supervision of the national Rabobank. In France there are different groups of cooperative banks; the integrated system built up by Crédit Mutuel consists of three tiers; local cooperatives under the prudential supervision of regional federations, which in turn are members of the national confederation.

In order to avoid undue government influence on cooperative development, the nature of government responsibilities vis-à-vis cooperatives, the cooperatives' rights of autonomy and self-regulation and the principle of non-discrimination are usually laid down either in the Constitution, in cooperative legislation or in policy statements on which cooperative legislation is based.

6.5.2. Countries in transition

In the transition countries of Eastern and Central Europe the government's relationship with integrated cooperative systems and apex organizations is of particular importance. Under the communist regime, apex organizations, federations and unions were highly politicized and under strict government control. The structures of vertical integration were prescribed by law or model by-laws, and most of the economic functions of cooperative unions and federations — as well as primary organizations — were geared to meet the targets of central plans. The strong influence of the ruling political party and of the State was particularly evident in the selection of staff and leadership of cooperative federations, unions and apex organizations; to be eligible to serve as chairpersons, directors and managers of cooperative organizations these usually had to be functionaries of the ruling party (democratic centralism). Entrepreneurial skills in a centrally planned economy were different from those required in a market economy.

With the collapse of the communist regimes and their centrally planned economies, communist collectives and consumer and housing cooperatives — hitherto perceived as political mass organizations — had to be transformed into autonomous cooperatives in a market economy or to disappear. Ways had to be found to restructure the vertical cooperative systems from top-down political bureaucracies into democratically controlled, representative support structures geared towards the needs of transformed or new primary cooperatives in a liberalized economy, in competition with emerging commercial firms.

While in Poland all federations and unions except the apex organization were dissolved by law and liquidated to make room for new democratically controlled structures, other countries tried to transform the plan-oriented structures established in communist times into autonomous, needs- and market-oriented structures, suitable for promoting and representing new or transformed cooperatives.

In all cases, the crucial issues are:

- to strengthen primary cooperatives so that they can afford to establish and finance their own federations and unions as a precondition for controlling them;
- to make members, elected representatives, employees and managers at all levels aware of the new challenges that autonomous cooperatives have to face in a market economy;
- to give employees and managers of primary cooperatives, unions, federations and apex organizations the chance to acquire the entrepreneurial and management skills that are needed to make cooperatives succeed in the new environment.

The development of integrated systems of cooperatives will be influenced by the willingness of governments to create conditions for the operation of independent cooperative federations, unions and apex organizations which allow them to operate on not less than equal terms with companies or other commercial ventures, rather than to ignore cooperatives or to discriminate against them.

6.5.3. Developing countries

In developing countries with a colonial past, cooperative federations, unions and apex organizations, when permitted at all, were under strict government control. In many countries there was little incentive and sometimes no reason to form or join cooperative federations or unions, because the supply of inputs, the processing and marketing of produce, the distribution of loans and the training of employees were in the hands of public, parastatal or commercial organizations. In the presence of powerful competitors, (often holding monopoly positions) and government regulations discriminating against cooperatives (e.g. coffee exports in Côte d'Ivoire), the chances of cooperatives succeeding with their own centralized services were remote.

Furthermore, services performed in industrialized countries by cooperative federations or unions, such as audit, advice and interest representation, were or are still performed by government departments free of charge (e.g. Malaysia, Thailand), so that there is little room for cooperatives to organize their own services which would have to be financed by service charges or fees. Under the structural adjustment programmes and efforts to reduce the role of the State in economic affairs, there is a gradual disengagement by governments from the internal affairs of the cooperative movement. In

some countries (e.g. Senegal) the government services for promoting and supervising cooperatives were dissolved, and several primary self-help organizations established their own apex organization with the support of national and international NGOs. In Niger, for instance, the national apex organization was abolished and local rural cooperatives established their own service centres with the help of the government and some external development partners, including the UNDP and the ILO. In other countries a skeleton government service was retained for purely statutory functions, while the task of promoting primary cooperatives was transferred to a new parastatal agency (e.g. ANADER in Côte d'Ivoire). In Indonesia, where the regional unions and national organization of village development cooperatives (KUDs) are government subsidized, farmers have in recent years started to establish their own cooperatives on democratic principles as an alternative to the KUDs, though they have not yet established a regional or national organization.

While in some countries cooperatives that benefited for decades from free government services feel abandoned when government involvement is phased out, in most countries the cooperatives have seized the chance to build up their own vertical structures and to establish independent, self-financed, member-controlled integrated systems. The Kenya Planters' Cooperative Union is a good example of a strong apex organization representing the coffee growers' cooperatives and playing a dominating role in the national coffee industry. In West Africa there are plans, supported by the ICA Regional Office, to establish a cooperative commodity exchange for agricultural products. In the United Republic of Tanzania, inspired by the spirit of promoting private enterprise after years of state control, crop-based associations are evolving among stakeholders in specific crop industries (e.g. associations for coffee, cotton, tobacco and cashew nuts).

For many years, large sums of development aid were used to strengthen cooperative federations, unions and apex organizations. The success of such efforts was usually short-lived, unless they were deliberately geared to a long-term process of building up strong and sustainable primary cooperatives at the grass-roots level, mainly by means of member education, leadership training and staff development. Often, externally funded cooperative service centres performed well as long as external funds were available, but collapsed when handed over to cooperative movement organizations that were unable to cover the heavy operating maintenance costs. At the same time external donors, by sponsoring such cooperative service centres, reduced the urgency for primary cooperatives and their federations and unions to mobilize their own funds for establishing self-financed vertical cooperative structures and served as an excuse to postpone such measures.

In Asia, it was concluded in an ILO workshop that the present capacity of many cooperative apex organizations in the region was not adequate to meet the challenges of the new environment, notwithstanding the important role which they have played so far. Their organizational structure, staffing patterns, management systems, activities and operations have been designed to suit state-sponsored and state-controlled cooperative systems. Since cooperative apex organizations are now mandated to function as representatives and promoters of autonomous, member-based and member-controlled cooperatives, they have to be restructured and reoriented and have to devise methods for raising sufficient funds to make them independent of government subsidies.

Several models have been developed to finance support services within an integrated cooperative system:

- public-private or donor-cooperative partnerships, with matching funds being paid by the public partner or donor in proportion to funds raised by the cooperative organizations by way of service charges, fees and dues;
- central fund models, where every registered cooperative society is required to contribute a certain percentage of its annual surplus to a central fund which promotes cooperative development, education and training (e.g. Malaysia) or finances the operations of a cooperative apex organization (e.g. Malta, Singapore);
- self-financing by income-generating activities (e.g. ANGKASA in Malaysia, with its check-off system for credit purchases for consumer cooperatives);
- a foundation designed to dispense with government and donor contributions and to provide a reliable and lasting financial basis for the staff of a cooperative apex organization, service centre or research institute.

However, many cooperative federations, unions and apex organizations are still dependent upon government subsidies for their survival (e.g. the Ghana Cooperatives Council, and EKOPIN in Indonesia).

7. International cooperation

7.1. Introduction

Cooperatives have since their beginning sought ways to create structures both vertically and horizontally to facilitate and enhance cooperation. Demonstrating solidarity and fellowship through cooperation is indeed an intrinsic part of the cooperative movement as expressed in the ICA's universally adopted Statement on the Cooperative Identity (see appendix). The Sixth Principle deals explicitly with cooperation among cooperatives: "Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures".

Although international cooperation among cooperative enterprises had already started in Europe in the 1860s, in today's globalized environment such cooperation becomes even more pertinent when one considers the wide geographical coverage of cooperatives, their strength in terms of market share in many countries and their vast membership across the globe.

The international organizations that deal with cooperatives worldwide can be grouped into four main categories: international structures created by cooperatives, international bodies which promote cooperatives to service their target groups or constituents, national organizations which promote cooperatives internationally, and networks with a mixed constituency of cooperators, cooperatives and promotional organizations and institutions.[5]

7.2. International cooperative structures

The International Cooperative Alliance (ICA), created by cooperatives in 1895, is the cooperative movement's apex organization. The ICA unites, represents and provides services to its members, which include national and international cooperative

organizations in numerous economic sectors ranging from agriculture, banking, energy, industry and insurance to fisheries, housing, tourism and consumer cooperatives. In all the ICA has more than 230 member organizations from over 100 different countries, representing more than 730 million individuals worldwide.

The ICA's overall aim is to promote and strengthen autonomous cooperatives throughout the world. Through actions taken at the international, regional and national level the ICA also seeks to promote and protect cooperative values and principles, to facilitate the development of economic and other mutually beneficial relations between its member organizations and to further the economic and social progress of its members and their communities.

International, regional and sectoral meetings are organized by the ICA on a regular basis which enable members to exchange experiences and information. The collection and dissemination of information on all aspects of cooperative development, resources and statistics is also an important function of the ICA. The ICA's headquarters in Geneva has a documentation centre, produces publications and periodicals on specialized topics and maintains a website on the Internet with extensive information, data and links to other cooperative-related sites.[6]

The regional offices of the ICA in Africa, Asia and Latin America were set up from the 1960s as part of technical assistance programmes to the south funded mainly by cooperative movements in the north. In 1993 the ICA decentralized its organizational structures, and autonomous regional assemblies were formed by national and regional cooperatives in the three regions.

Having become less donor-oriented, the ICA's regional offices function today more as regional networks for cooperatives, facilitating economic and technical assistance among their members. In Asia, for example, its major partners in cooperative development programmes are cooperative movements from the region (India, Japan, Republic of Korea and Singapore).

The ICA's regional offices also deal with policy matters at the national and regional level. For example, the regional offices in Africa and Asia organize regular, regional ministerial conferences bringing together government ministers and policy-makers concerned with cooperatives. In March 1997 the fourth such regional conference for Asia and the Pacific was held in Thailand. The theme of the conference was the role of cooperatives in the changing socio-economic environment. In the conclusions and recommendations, delegates from 22 different countries in the region identified areas where policy could be reviewed in order to empower cooperatives to become more competitive. In 1999 ministerial conferences for Africa and Asia will be held in Swaziland and China, respectively.

As a non-commercial organization the ICA does not play an important role in direct business transactions between cooperatives. However, it is able to support economic and technical linkages through its specialized organizations and thus exchange data and information on cooperatives, market information, technology, product standards and rules and regulations governing cooperative enterprises, etc., cooperative personnel and ideas and training materials. The ICA's specialized organizations have been established in the sectoral fields of agriculture, industrial, artisanal and service provision, consumption, fisheries, housing, banking, insurance, tourism, distributive trade, health and energy. The ICA has also established specialized committees which deal with specific matters relevant to the global cooperative movement, such as research, communications, gender equality issues and human resource development.

Four of the ICA's specialized organizations are described below, namely, the International Cooperative and Mutual Insurance Federation (ICMIF), the International Cooperative Banking Association (ICBA), the Comité international des coopératives de production et de service industrielles et artisanales (CICOPA), and the International Organization for Consumer Cooperative Distributive Trade (INTER-COOP).

ICMIF

The ICMIF, founded in 1922, today represents more than 240 cooperative and mutual insurance societies belonging to 100 member organizations in 61 countries. The ICMIF includes a development programme which helps cooperative and trade union movements to develop cooperative insurance services, particularly in developing countries. The Federation also has a re-insurance service which enables cooperative insurance societies throughout the world to exchange re-insurance business. The third supporting body of the organization, Allnations Inc., which had mainly concentrated on helping provide loan guarantees required by newly formed insurance cooperatives, is now assuming a more active role in assisting cooperative insurance facilities.

ICBA

The ICBA was established in 1922 by national cooperative banks and financial organizations in order to exchange information, promote cooperation among cooperative banks, promote the development of new cooperative banks through advice and assistance, and research and study subjects of common interest such as capital formation and cooperative values as applied to banking.

The ICBA has 68 member organizations from 40 countries across the globe. The ICBA Central Executive maintains close contact with the Association of European Cooperative Banks in Brussels, the World Council of Credit Unions (WOCCU) and the International Raiffeisen Union (IRU) mentioned below.

CICOPA

CICOPA's members are producers' cooperatives from different fields such as construction, industrial production, general services, transport, intellectual skills, artisanal activities, health and social care. Due to changes in the global economy over recent years, the number of producers' cooperatives has increased in both industrialized and developing countries. CICOPA now has a membership of over 70 apex cooperative organizations from 57 countries. In 1975 CICOPA estimated that there were some 44,000 producers' cooperatives worldwide with 6 million individual members. This figure has increased significantly over the past 20 years to about 50 million members/workers, including cooperative societies and other forms of associative enterprises such as those promoted by Employee Stock Ownership Plans (ESOP) in the United States, by Industrial Common Ownership Movement (ICOM) in the United Kingdom, and by the *Sociedades Anónimas Laborales* (SAL) in Spain. The new impetus to the movement has been a result of the privatization of certain economies such as China where, for example, many public enterprises are being converted into worker cooperatives.

CICOPA supports commercial and technical links between producers' cooperatives through the exchange of goods and services, the provision of education and training especially at managerial level, the exchange of experiences, the study of issues specific to producers' cooperatives in all countries, and the circulation of recommendations for the solution of cooperative problems in the industrial sector.

INTER-COOP

INTER-COOP, founded in 1971, is an association of ten national consumer federations in nine countries (Finland, Hungary, Israel, Italy, Japan, Norway, Slovakia, Sweden and the United Kingdom). INTER-COOP aims at promoting commercial cooperation between its member organizations in order to increase their competitive power in the market place.

INTER-COOP's activities include the exchange of information and know-how among member retail organizations; several permanent and ad-hoc working groups have been set up specifically for this purpose. In addition INTER-COOP organizes an education and management development programme for senior managers of member organizations.

Together with their 2,200 affiliated cooperative retail societies, the retail organizations of INTER-COOP members make up an economic force as a trading group which exerts a significant influence on national and international markets. In 1995 members of INTER-COOP recorded retail sales exceeding 56 billion ECU in more than 22,000 retail outlets.

The World Council of Credit Unions (WOCCU) is another international organization established as a fourth tier of the credit union movement in 1971. WOCCU's members include regional and national credit union associations across the globe and several cooperative associations and business/service organizations. WOCCU's aim is to assist members to organize, expand, improve and integrate credit unions and related institutions as effective instruments for the economic and social development of people. In 1997 WOCCU represented 85 national credit union movements with nearly 90 million credit union members.

The WOCCU serves as a forum for the exchange of ideas and information, provides services for its members, promotes membership development and growth, represents members' interests and extends cooperative financial services to areas where people want and need these services.

The WOCCU also coordinates periodic meetings to address the evolving roles and needs of the worldwide savings and credit union movement and represents the credit union movement before national and international bodies. The International Credit Union Forum, held every three years, brings people together from all over the world to discuss important issues and trends, and to exchange information and ideas. WOCCU provides technical and developmental services, including the design and implementation of long-term programmes in institutional development, short-term technical assistance and training projects, and assistance in mobilizing human and financial resources. WOCCU currently has long-term credit union development projects in Africa, Asia, the Caribbean, Central and South America, and Central and Eastern Europe.

International assistance is today given directly by credit union movements, often in collaboration with government programmes. Australia, Canada (both English- and

French-speaking), France, Germany, Ireland, the Republic of Korea and the United States are the most active in international assistance.

The International Raiffeisen Union (IRU) was established in 1968 to coincide with the 150th anniversary of the Raiffeisen movement. The IRU has not wanted to enter into competition with existing international organizations of cooperatives but has preferred to limit its mission to propagating the ideas of F. W. Raiffeisen[7] and facilitate the exchange of ideas and experiences of cooperatives adhering his philosophy and principles. The IRU maintains relations with other international cooperative organizations and intergovernmental bodies promoting cooperatives, but it has not taken up any development or economic activities. The IRU's aim is to represent the international Raiffeisen movement to the public, to provide information and documentation to its members and to facilitate the exchange of experiences. National Raiffeisen movements in 44 countries form the constituency of the IRU.

International cooperative structures operating regionally

Closely linked to the international structures mentioned above, which operate globally, are a number of cooperative structures, created by cooperatives, which operate regionally. These associations of cooperatives function mainly as lobbying organizations but are also in a position to facilitate intraregional economic activities.

Among the more notable of these structures are the nine cooperative lobbying groups of the European Union representing the following sectors: agriculture, banking, insurance, pharmaceuticals, housing, tourism, commerce, and consumer and worker cooperatives.

Representing worker/joint production cooperatives is the European Confederation of Workers' Cooperatives, Social Cooperatives and Participative Enterprises (CECOP), founded in 1979. CECOP, which groups 60,000 cooperative societies and about 1.5 million members,[8] provides a permanent liaison between its members and coordinates and supports their projects.

Another cooperative group in the EU is Euro Coop, which was founded in 1957 and provides expertise to European institutions for the promotion of consumer interests. An important part of Euro Coop's activity is the representation of consumers within the numerous advisory committees set up by the European Commission, such as the Committee on Commerce and Distribution, the Coordinating Committee of European Cooperative Associations, the Consultative Committee of Cooperatives, Mutual Societies, Associations and Foundations, and the Consumer Committee.

Within the cooperative credit movement, regional confederations affiliated to WOCCU have also been created. These include the Association of Asian Confederation of Credit Unions (ACCU) in Asia and the Pacific, the African Confederation of Cooperative Savings and Credit Associations (ACCOSCA) in Africa, the Caribbean Confederation of Credit Unions (CCCU) and the Latin American Confederation of Credit Unions (COLAC). Also in Latin America, the Organization of the Cooperatives of America (OCA) and the Confederation of Cooperatives of the Caribbean and Central America (CCC-CA) unite national cooperative movements representing all types of cooperative enterprises within their respective countries.

In other cases, national representative organizations set up by cooperative enterprises in certain sectors, or even of certain types, have also established their represen-

tative and service organizations at the regional level. The Latin American Confederation of Cooperative Workers (COLACOT) is one such case.

In the African and Asian and Pacific regions these types of organization are less well developed. In Western Asia and North Africa, general national cooperative movements are linked within the Pan-Arab Cooperative Union. In Asia and the Pacific a subregional cooperative organization has been formed by general and national organizations in the ASEAN subregion. Those in the countries of SAARC have been exploring the possibility of establishing a similar subregional organization. There are no such general cooperative organizations in the remainder of Africa or in Eastern Asia or the Pacific, although there are international networks including cooperatives and cooperative-promoting institutions.

7.3. International structures promoting cooperative development

A second category of international structures dealing with cooperatives and supporting cooperative development are the intergovernmental and non-governmental structures which have not been created by cooperatives themselves. These include, on the one hand, the United Nations and its specialized agencies, the EU and international and regional lending institutions, and, on the non-governmental side, structures such as the International Federation of Agricultural Producers (IFAP), the Afro-Asian Rural Reconstruction Organization (AARRO), the International Federation of Free Trade Unions (ICFTU) and other trade unions. These international organizations promote cooperative development as a means of addressing the needs and improving the socio-economic conditions of their constituents or target groups, especially in developing countries.

In the United Nations system[9] there are no separate structures which serve only cooperatives; however, the United Nations General Assembly, the Economic and Social Council (ECOSOC) and the United Nations Department for Policy Coordination and Sustainable Development, as well as several specialized agencies such as the FAO and the ILO, have been working with cooperatives for many years and have established special units which address cooperative development.

In the ILO a cooperative unit was established as early as 1920. Today the Cooperative Branch is responsible for an extensive programme of activities aimed at promoting cooperative development. These activities comprise the provision of advisory services, research and publications, international meetings, networking and coordinating regional and interregional technical cooperation programmes and projects. Among the Branch's interregional programmes are COOPREFORM, which focuses on cooperative legislative reform, COOPNET, which deals with cooperative human resource development, management and networking with cooperative organizations and institutions and, INDISCO, which assists indigenous and tribal communities to become self-reliant.

The United Nations Department for Policy Coordination and Sustainable Development includes a focal point for cooperatives. One of the functions of this Department is to bring to the attention of relevant parts of the United Nations system, and of intergovernmental bodies where appropriate, the operations of cooperative business enterprises to their areas of responsibility. Every second year the Department prepares the United Nations Secretary-General's report on cooperatives to the General Assem-

bly in collaboration with the Committee for the Promotion and Advancement of Cooperatives (COPAC).

Since the 1950s the United Nations General Assembly and ECOSOC have adopted a number of resolutions and recommendations regarding cooperatives. For example, resolution A/RES/51/58, adopted by the General Assembly in 1996, urges governments, relevant international organizations and the specialized agencies, in collaboration with national and international cooperative organizations, to give due consideration to the role, contribution and potential of cooperatives in achieving social and economic development goals, and to promote and facilitate the growth and development of cooperatives. The resolution further encourages governments to review the legal and administrative provisions governing the activities of cooperatives with a view to creating a favourable climate for cooperative development. The United Nations Secretary-General is requested in the resolution to continue to support the goals and objectives of the cooperative movement and to ascertain, in cooperation with COPAC, the desirability and feasibility of elaborating United Nations guidelines aimed at creating a supportive environment for the development of cooperatives (see below).

This year the United Nations Secretary-General's report on cooperatives reviewed government initiatives to ensure that legal and administrative provisions governing the activities of cooperatives provide a supportive environment for cooperatives, so that cooperatives are able to contribute to the goals of national development and of meeting basic human needs. It was reported that changes to cooperative legal and administrative frameworks had been made in numerous countries in the last few years, including Austria, Bosnia and Herzegovina, Burkina Faso, Canada, Fiji, Finland, Germany, Greece, Iceland, Italy, Jordan, Mauritius, Portugal, Singapore, Slovenia, Viet Nam and Yugoslavia. It also noted that revisions were likely to be undertaken in Bangladesh, Chile, Ghana and Morocco.

In 1971 an inter-agency Committee for the Promotion and Advancement of Cooperatives (COPAC) was established to promote the coordination of international assistance to cooperatives. COPAC brings together representatives of the cooperative movement, farmers' and workers' organizations and the United Nations and its agencies. COPAC's present membership includes the United Nations, the FAO and the ILO, and three international non-governmental organizations (ICA, WOCCU and IFAP).

The members of COPAC collaborate with each other to promote and coordinate sustainable cooperative development through policy dialogue, technical cooperation and collection and dissemination of information. Members' meetings are held twice yearly, and seminars and other meetings are organized on specific topics concerning cooperatives.

In response to the United Nations resolution A/RES/51/58 mentioned above, COPAC has started to draft guidelines for cooperative development. The guidelines contain a series of recommendations that should be considered when establishing a policy with regard to cooperatives and the cooperative movement. These include public recognition of the cooperative movement; legal, judicial and administrative provisions; research, statistics and information; education; provision of public funds; and institutional arrangements for collaboration and partnership.

The finalized guidelines have now been included as an annex to the Secretary-General's report and will be considered at the General Assembly's 54th Session for review and possible adoption in the autumn of 1999.

7.4. National organizations promoting cooperatives internationally

A third category of structures promoting and servicing cooperatives internationally comprises national government agencies and national level, non-governmental structures. The non-governmental structures can be cooperative or non-cooperative-based.

Almost all governments of the OECD countries provide funding to cooperative development agencies in their respective countries for use in support of cooperative development in developing countries. In 1994 cooperative development agencies in Australia, Belgium, Canada, Denmark, Finland, France, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States combined public funding with funds within the national cooperative movement itself.

A number of national level organizations established by cooperative movements in industrialized countries have a specialized unit or department which promotes cooperative development in developing countries. Examples include the Rabobank Foundation (the development arm of the cooperative bank of the Netherlands), the Canadian Cooperative Association (CCA), the Swedish Cooperative Centre (SCC), the Royal Norwegian Society for Development (NRD), the Japanese Consumer Cooperative Union (JCCU) and the Consumer Cooperative Institute (CCIJ), the Development International Désjardins (DID) in Canada, the International Council for Consumer Cooperation (CONSUMINTER) in the Russian Federation, Crédit Mutuel in France, Legacoop in Italy and the National Cooperative Business Association (NCBA) and ACDI/VOCA[10] in the United States. The NCBA, founded in 1916, is the national membership and trade association representing more than 40,000 cooperatives in the United States. Their lines of business include farm supply, agricultural marketing, insurance, banking, housing, health care, consumer goods and services, education, credit union, manufacturing, fishery, rural electric, telephone, public employee associations and more. The NCBA works to expand cooperative businesses in the United States and abroad to represent the cooperative business community before national and international government agencies and to promote trade and cooperation between cooperative enterprises in the United States and other countries.

There are also a number of national level structures which have not been set up by cooperative organizations themselves but which nevertheless focus on cooperatives in their various activities and development programmes. This category encompasses churches and charitable organizations as well as national training institutions with global outreach. Examples include the Plunkett Foundation, which focuses on self-help enterprises and people-centred businesses, political foundations in Germany (such as the Konrad-Adenauer and Friedrich-Ebert Foundations) and national institutes such as the International Institute Histadrut in Israel, the Cooperative College in Moshi, United Republic of Tanzania, the Institute of Rural Management (Irma) in Anand, India, and the *Institut supérieur panafricain d'économie coopérative* (ISPEC) in Benin, Africa. The ILO's Cooperative Branch collaborates closely with these and other institutes in its various programme activities.

7.5. International networks servicing cooperatives

A fourth category of organizations promoting and servicing cooperatives consists of the numerous international and regional networks with mixed constituencies.[11] Most

of these networks focus on human resource development, including research, training and education and the collection and dissemination of information. Their members can be persons or institutions. As their structures are usually open and often informal, their constituency may work in other areas besides cooperatives, such as trade unions and public services. Cooperatives themselves are often interested in liaising through such networks with other institutions or forms of enterprises.

The International Centre of Research and Information on the Public and Cooperative Economy (CIRIEC) is an example of such an international network. CIRIEC was created in 1947 in Geneva and focuses mainly on cooperatives and the public economy. CIRIEC is based on national commissions (in Europe, Argentina, Canada and Japan), and the exchange of ideas and research results is facilitated through publications, periodicals, and national and international meetings.

Another example of transnational research cooperation in the service of cooperatives is the Association of University Institutes for Cooperative Science (AGI), founded by ten German-speaking institutes in Germany, Austria and Switzerland in 1968. Most of the member institutes are directly financed by the cooperative movements but are integrated into a university structure. The AGI promotes cooperative science and university education in this discipline and holds international symposia to exchange information with researchers throughout the world.

Other notable international networks that are working in the field of research, training and information include Development Innovations and Networks (IRED) and the *Université Internationale des Coopératives* (UIC). These networks have a mixed constituency of NGOs, self-help groups and associations and churches and development agencies and operate to a large extent in French-speaking Africa. A similar example of a regional network with a mixed constituency in West Africa is the *Réseau d'appui du développment des capacités pour les coopératives* (RADEC-COOP). The Latin American Association of Cooperative Centres of Education (ALCECOOP) is a regional cooperative network, as is the FAO-supported Network for the Development of Agricultural Cooperatives (NEDAC) in Asia.

Notes

[1] ILO: Unpublished report on a seminar/workshop on cooperatives and workers' organizations, 3-7 Mar. 1997, Manila, Philippines.

[2] W. Watson: "Involvement of trade unions in the United Kingdom", in *Review of International Cooperation*, No. 1/1997 (Geneva, ICA, 1997).

[3] ILO, op. cit.

[4] J. Schwettmann: *Cooperatives and employment in Africa* (Geneva, ILO, 1997).

[5] G. Ulrich: "International organizations and structures in the service of cooperatives", in *Journal of Cooperative Studies*, May 1997.

[6] http://www.coop.org.

[7] Friedrich Wilhelm Raiffeisen (1818-88) is generally acknowledged throughout the world as the founder of the cooperative system.

[8] http://www.cecop.org.

[9] J. von Muralt: "United Nations system and cooperatives", in E. Dülfer et al. (eds.): *International Handbook of Cooperative Organizations*, Vanderhoeck and Ruprecht (Göttingen, 1994), p. 898.

[10] ACDI/VOCA was created in 1997 through the consolidation of Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance. ACDI/VOCA has its roots in America's farmer cooperatives and farm credit banks and is affiliated with the National Council of Farmer Cooperatives and the Farm Credit Council. The United States agricultural cooperative community founded both ACDI and VOCA in the 1960s to promote international cooperation and improve the lives of people worldwide. ACDI/VOCA has experience in 100 nations and has offices in more than 30.

[11] G. Ulrich, op. cit.

CHAPTER III

CONCLUSIONS

The proposition

It is proposed that Recommendation No. 127 be revised to provide an appropriate framework for the promotion of cooperatives in the twenty-first century, which is universal in its application, emphasizes the position of cooperatives as privately owned member-controlled organizations and recognizes their need to function within a competitive environment and to sustain their identity, having a distinctive role both as economic enterprises and within civil society. The most appropriate way of providing such a framework is now being sought.

The changes affecting cooperatives and their future potential

The report documents the many changes that are influencing cooperatives in differing ways in developing countries, transition economies and industrialized countries. Cooperatives have responded to this radically changing environment in a variety of ways; some cooperatives have gone out of existence whilst others are flourishing in the new conditions. The advantages to nations of having strong cooperatives as one of a variety of forms of private sector organizations, and their ability to play a constructive role in both economic life and within civil society, have been highlighted — not least, their potential to generate and sustain employment, to support entrepreneurship and wealth creation and to provide much-needed social services in the face of the reduced capacity of the State to do so.

A new role for government in relation to cooperatives

The most appropriate ways in which governments may in future provide a positive framework in which cooperatives can grow and prosper need to be found. The proposed revision of Recommendation No. 127 could be a most valuable means of encouraging the adoption of new, more relevant governmental policies in relation to cooperatives. In particular governments may consider adopting policies that:

- are even-handed towards cooperatives but at the same time take account of their capacity to contribute to the general well-being of the nation and the special features that distinguish them from investor-owned companies;
- will stimulate the growth and expansion of cooperatives whilst respecting their integrity and their right to self-determination, recognizing the special nature of cooperatives as self-help enterprises;
- encourage cooperatives to accept fair application of competition policy which brings a balance into the market-place;

- recognize that cooperatives need in principle to be taxed equally with other forms of commercial enterprise; the principle of "equal treatment" should apply and any incentives offered to investor companies and their shareholders should also be made available to cooperatives; nevertheless, tax concessions may be justified for certain types of cooperatives, to encourage activities that are deemed to be in the public interest; transitional tax benefits may also be appropriate to allow cooperatives to start having a share of the national business "cake" enjoyed by investor-owned companies;
- ensure that curricula of education and training establishments pay sufficient attention to cooperative forms of enterprise and that students in all kinds of schools, colleges and universities are aware of the cooperative business option; and
- where necessary, facilitate the transition of cooperatives from state control and interference to genuine member-controlled enterprises.

The legal framework

The design of an appropriate legal framework for cooperatives must take into account the primacy of member interests, the autonomy of the cooperative enterprise, legitimate public interests, and the current political, social and economic context of the respective country. Many nations are experiencing a shift in paradigms which seek to replace the State with the market as an engine of growth and development. This is demonstrated by the policies of deregulation, privatization and liberalization that have been adopted almost everywhere in the world. The present global context gives cooperatives a real chance to operate on the basis of internationally accepted values and principles. This can be reflected in contemporary cooperative laws, so that cooperatives can in future compete on a "level playing field" with other enterprises.

The promotion of cooperatives

Cooperatives are probably best promoted by providing them with a favourable climate in which to develop. Favourable conditions include the right of cooperatives, whenever it is practical, to organize their own support services and avoid parallel or competing services offered by public or other subsidized service providers.

Member education and training of elected member representatives, managers and employees, not only in their technical duties but also in the rules, benefits and ways of making cooperation function effectively, are of crucial importance; in most cases it is in the provision of such education and training that assistance to cooperatives may be most usefully provided.

Both employers' organizations and workers' organizations, as well as governments, have the opportunity to work in collaboration with cooperatives to further their mutual interests. Whilst some valuable experience in such activities already exists, the most effective ways of fostering such collaboration need to be developed.

Structural change within cooperatives

The worldwide trend of amalgamating small local cooperatives into larger units as a reaction to merger and acquisition policies of investor-owned competitors looks set

to continue. This seems necessary in many cases so as to build up and strengthen vertically integrated cooperative systems, including cross-border cooperation at the international level. This works best if cooperatives are given autonomy to federate and to agree on their own structures. There is a new awareness of the need to establish integrated cooperative systems to fill the space vacated by the state-owned undertakings and the State's progressive disengagement from direct involvement in cooperatives. The larger and more professional primary cooperatives become, the less they need and are willing to pay for the services of regional cooperative federations or unions. Accordingly, a merger of primary societies leads to the reduction of the number of secondary and tertiary societies, often resulting in a one-tier cooperative structure.

It is advocated that cooperatives should be placed in a position where they can perceive the new environment not as a threat but as an opportunity. Liberal, deregulated market economies should create new business opportunities for all forms of enterprise, including cooperatives. However, the more an economy is deregulated, the more important the original cooperative values and principles become. In this situation, cooperatives need to stress their unique comparative advantages, which offer people an alternative to enterprises that have the paramount objective of achieving maximum "shareholder value".

International linkages and support for cooperative development

Linkages between national and international bodies and institutions involved in cooperative development could be maintained and encouraged to ensure effective synergy and to enable cooperatives to optimize their vast employment-creation and income-generation potential.

The ILO, with its unique tripartite structure, could further expand its activities aimed at creating employment opportunities through cooperative business enterprises by:

- providing information and capacity-building services to employers' and workers' organizations and other organizations interested in employment creation through cooperatives, in collaboration with other international partner organizations and institutions (e.g. ICA, COPAC, ICFTU);
- assisting cooperatives through technical cooperation programmes to become more competitive, to strengthen local capacities, to provide consultancy services, and to facilitate the access to and dissemination of information through networking and partnerships;
- advising government on policy issues regarding cooperatives in order to create a favourable climate for cooperative development;
- carrying out research in collaboration with partner organizations and institutions, and involving the social partners in strategies to promote sustainable economic activities and employment through cooperatives;
- organizing collaborative activities between the ILO, the social partners and cooperative organizations and institutions aimed at employment creation through cooperatives, and ensuring that both men and women participate in these activities on an equitable basis;

- carrying out studies on the role of cooperatives in poverty alleviation and in bettering the socio-economic conditions of particularly disadvantaged groups such as indigenous and tribal peoples, the disabled and unemployed youth.

The questionnaire

The questionnaire which is attached is intended to secure information and provide the opportunity for ILO member institutions to feed back their own specific experience in the promotion of cooperatives, so that this may be taken into full account when developing a revised Recommendation No. 127.

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APPENDIX

International Cooperative Alliance — Statement on the Cooperative Identity

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The cooperative principles are guidelines by which cooperatives put their values into practice.

First Principle: Voluntary and open membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Second Principle: Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

Third Principle: Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

Fourth Principle: Autonomy and independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

Fifth Principle: Education, training and information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

Sixth Principle: Cooperation among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

Seventh Principle: Concern for community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

QUESTIONNAIRE

In accordance with article 12, paragraph 3, of the ILO Constitution and article 39 of the Standing Orders of the International Labour Conference, Government members are invited to consult the most representative employers' and workers' organizations, as well as cooperative organizations, in finalizing replies to this questionnaire in order that such replies may be received by the International Labour Office no later than 1 June 2000.

I. Form of the international instrument

1. Do you consider the International Labour Conference should adopt a new international instrument concerning the promotion of cooperatives?

2. If so, do you consider that the instrument should take the form of a Recommendation?

II. Preamble

3. Should the instrument include a preamble referring to:

(a) Employment Policy Convention, 1964 (No. 122), and Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169)?

(b) Rural Workers' Organisations Convention, 1975 (No. 141), and Recommendation (No. 149)?

(c) Human Resources Development Convention, 1975 (No. 142), and Recommendation (No. 150)?

(d) Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189)?

(e) Other instruments? (Please specify.)

III. Objective, scope and definition

4. Should the instrument seek to promote the considerable potential that cooperatives have, in all countries whatever their level of development, to assist their members to:

(a) create employment and expand access to income-generating activities?

(b) improve social well-being?

(c) increase savings and investment?

(d) attain other economic and social objectives? (Please specify.)

5. Do you consider that the instrument should apply to all types and forms of cooperatives and to all economic and social sectors in which cooperatives operate?

6.1. Do you consider that the framework for a definition contained in the Co-operatives (Developing Countries) Recommendation, 1966 (No. 127), is still relevant and adequate?[1] If not, what should be the definition of a cooperative?

6.2. Do you consider that a definition of cooperatives should continue to be left solely to national laws and practice or should a definition be contained in the instrument itself?

7. Should the instrument encourage the promotion and strengthening of the identity of cooperatives based upon the following unique characteristics:[2]

(a) voluntary and open membership;

(b) democratic member control;

(c) member economic participation;

(d) autonomy and independence;

(e) education, training and information;

(f) cooperation among cooperatives;

(g) concern for the community?

8. Should the instrument encourage measures enabling cooperatives to respond to the needs of disadvantaged groups in society? If yes, what should such measures include?

IV. The role of governments, employers' and workers' organizations and cooperative organizations and their relationship

9.1. Should the instrument provide for the following role for governments in the promotion and regulation of cooperatives:

(a) establishment of a policy and legal framework?

(b) establishment of an institutional framework allowing for the registration of cooperatives in a rapid and simplified manner?

(c) establishment of a policy and legal framework for the promotion of a vertical co-operative structure? (i.e. primary, secondary and apex bodies).

(d) adoption of special measures for the oversight of cooperatives?

9.2. Should the instrument provide for governments to have any other responsibilities with respect to the promotion and regulation of cooperatives? If so, please specify.

10. Should employers' organizations be encouraged to:

(a) make appropriate support services available to cooperatives?

(b) include cooperative organizations in their regional, national and local groups, especially where the latter deal with policies and programmes having an impact on cooperatives?

(c) participate in the exchange of experience and the establishment of commercial linkages between cooperatives and other forms of enterprises?

(d) participate in studies on social and labour market issues of interest to cooperatives?

(e) participate in programmes for cooperatives aimed at improving product and service quality and access to market opportunities?

(f) recommend that their members assist workers to establish consumer cooperatives, savings and credit cooperatives and housing cooperatives?

(g) carry out other activities? (Please specify.)

11. Should workers' organizations be encouraged to:

(a) advise their members to establish cooperatives with the special aim of facilitating access to basic consumer goods, loans, housing and social services?

(b) promote the establishment of cooperatives in the informal sector in order to improve the competitiveness of micro-enterprises and to organize social services?

(c) participate in committees and working groups at the national and local levels to consider economic and social issues having an impact on cooperatives?

(d) participate in the setting up of new cooperatives, such as workers' cooperatives converted from private and state enterprises?

(e) participate in programmes for cooperatives aimed at improving productivity and equality of opportunity?

(f) carry out other activities? (Please specify.)

12. Should cooperative organizations, and in particular their unions and federations, be invited to:

(a) establish an active partnership with employers' and workers' organizations and development agencies for creating a favourable climate for the development of cooperatives?

(b) finance and manage their own technical support services, including management consultancy, human resource development and external audit?

(c) furnish commercial and financial services to affiliated cooperatives?

(d) represent the national cooperative movement at the international level?

(e) carry out other activities? (Please specify.)

V. Policy framework

13.1. Should the instrument recommend the promotion of voluntary and independent cooperatives as one of the objectives of national economic and social development?

13.2. Should such cooperatives and other enterprises or social organizations be treated on equal terms?

14.1. Should member States' policies include, as recommended by current international standards, measures which:

(a) create an appropriate legal and institutional framework for cooperatives?

(b) facilitate access to credit for cooperatives?

(c) promote education in the principles and practices of cooperative membership?

(d) develop the technical and managerial abilities of both members and managers?

(e) contribute to the spread of information on cooperatives?

(f) improve the level of productivity and quality of the goods and services produced by cooperatives?

(g) facilitate access of cooperatives to markets?

(h) improve national statistics on cooperatives with a view to the formulation and implementation of development policies?

14.2. Should the instrument also recommend measures which:

(a) limit the role of the State with regard to cooperatives to regulatory functions, dissolution and the enforcement of cooperative legislation?

(b) decentralize as far as possible to the regional and local levels the formulation and implementation of policies and regulations regarding cooperatives?

(c) limit the legal obligations on cooperatives to registration, audits and the receipt of licences and establishment of business reports in the same manner as is required of any other form of business?

VI. Measures for implementing policies for the promotion of cooperatives

A. Legislation

15. Is it desirable that member States adopt specific legislation on cooperatives and periodically revise such legislation? If so, is it desirable that such legislation recognize explicitly the cooperative characteristics listed in question 7 above?

16. Should the instrument recommend the consultation of the employers' and workers' organizations concerned, as well as cooperative organizations, in the formulation of cooperative legislation?

B. Establishment of support services for cooperatives

17.1. Should cooperatives have access to a package of support services to strengthen their business viability and their capacity to create employment and income?

17.2. If so, should these services include the following:

(a) training programmes for the improvement of the entrepreneurial capabilities of members, managers and employees of cooperatives?

(b) research and management consultancy services?

(c) access to finance and investment?

(d) external audit and accountancy?

(e) management information services?

(f) information and public relations services?

(g) consultancy services on technology and innovation?

(h) legal and tax services?

(i) other specialized services? (Please specify.)

17.3.1. Should the above package of services, in principle, be financed by the co-operative organizations themselves?

17.3.2. If such financing is not considered appropriate, or where it is not currently feasible, how should these services be financed?

18. Should the instrument recommend measures to facilitate the access of cooperatives to investment finance and credit? If so:

(a) should additional measures be adopted to address related problems, for example, bureaucratic procedures, low level of cooperative assets, cost of loan transactions?

(b) should specific measures be adopted to provide for an autonomous system of finance for cooperatives, including credit and savings cooperatives, cooperative banks and cooperative insurance?

(c) should credit and finance facilities be offered at market conditions as for other forms of business enterprises?

(d) should special conditions be offered to vulnerable groups?

19. Should the instrument encourage the development of linkages among all forms of cooperatives in order to encourage an exchange of experience and the sharing of risks and benefits for the promotion of the cooperative movement?

VII. International cooperation

20. Should the instrument recommend that members take appropriate measures to facilitate international cooperation in the following areas:

(a) the exchange of information on policies and programmes which have proved to be effective in employment creation and income generation for members of cooperatives?

(b) the encouragement and promotion of linkages between national and international bodies and institutions involved in the development of cooperatives, in order to:

(i) exchange personnel and ideas?

(ii) exchange educational or training materials, methodologies and reference materials?

(iii) facilitate the compilation and utilization of research material and other data on cooperatives and their development?

(iv) establish alliances and international partnerships between cooperatives?

(v) promote and protect cooperative values and principles?

(vi) carry out other activities? (Please specify.)

(c) promotion of the access of cooperatives to national and international data such as market information, legislation, training methods and techniques, technology and product standards?

Notes

[1] Recommendation No. 127 states in Paragraph 12 (1) that laws and regulations should include "(a) a definition or description of a cooperative bringing out its essential characteristics, namely that it is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate".

[2] These are the universal values and principles as expressed in the Statement on the Cooperative Identity, 1995, of the International Cooperative Alliance.

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